

NUMBERS STRENGTH IN

### STRENGTH IN NUMBERS



For Constellation Brands, *Strength in Numbers* is more than words. We demonstrate our numerical strength in a multitude of ways – financially, in portfolio breadth, distribution scale, geographic scope, consumer insights and in every aspect of our daily business activities.

**Brands** With well known – even iconic – brands numbering more than 200, our strength across the beverage alcohol categories of wine, beer and spirits is indisputable. The strength of our portfolio generates meaningful growth in new and existing markets as we continue to recognize and harvest opportunities around the world.



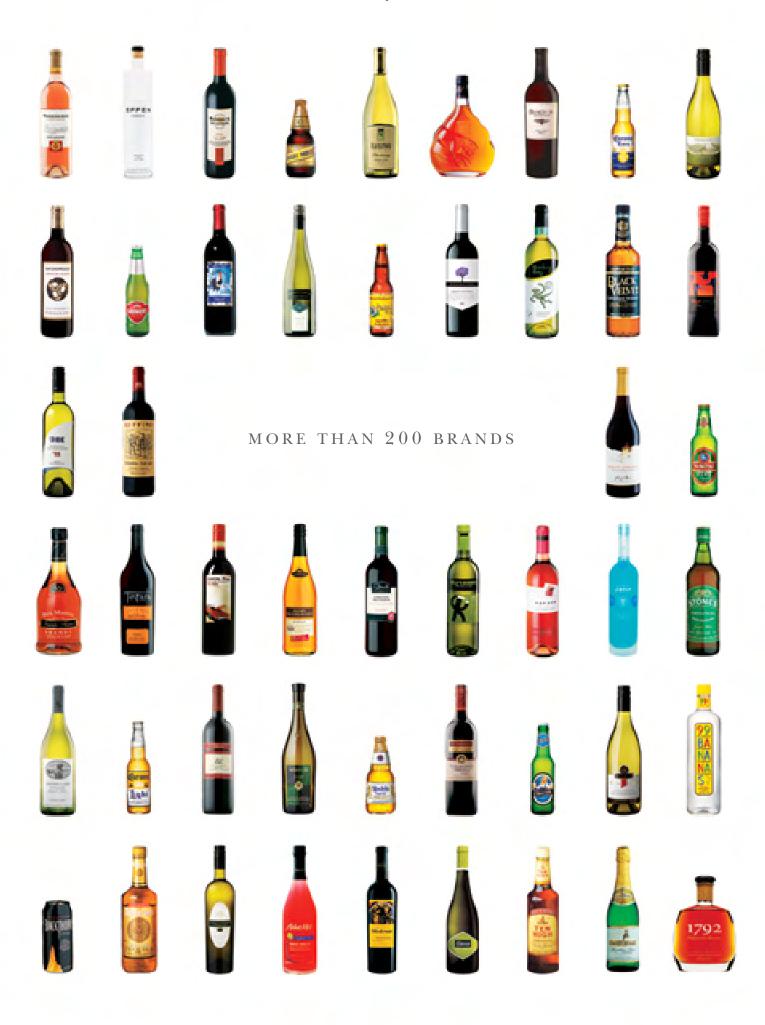
**People** 10,000 employees comprise the Constellation Family in locations as diverse as our corporate offices near Rochester, New York, and as far as Japan. Each and every member of our global team brings something unique to the table – a mix of talents and skills that provide the strength to help us realize our goals. Without the dedication, commitment and hard work of thousands of employees worldwide, many opportunities would remain unharvested.

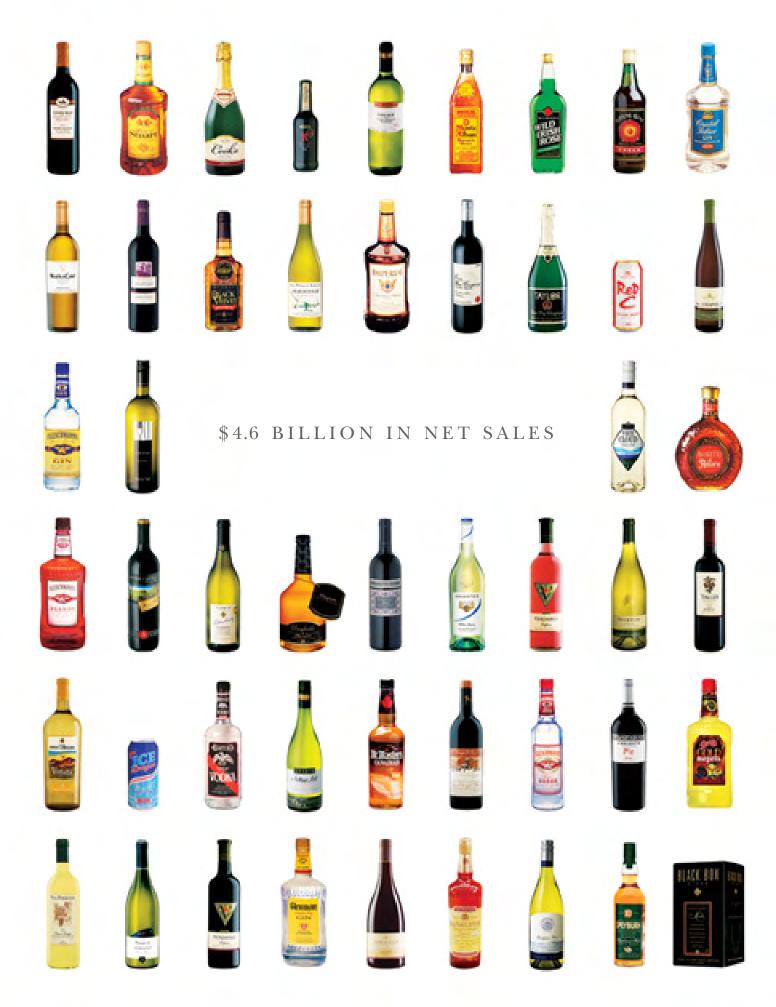
**Resources** Innovation, dedication, insight and vision are pillars that strengthen Constellation Brands. Products that have been developed specifically to take advantage of niche opportunities in the marketplace; partners and distributors dedicated to demonstrating our strength through profitable sales growth; management with insights into the beverage alcohol business second to none and a needle sharp focus on the vision that first started this company 60 years ago.

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Constellation Brands is a leading international marketer of beverage alcohol brands with a broad portfolio across the wine, spirits and imported beer categories.

We are committed to delivering a harvest of successful, growing brands and consistent, profitable performance – all the while remaining focused on the strategy that has consistently delivered shareholder value.









Vincor Joins the Constellation Brands Family On June 1 Vincor shareholders voted to accept the Constellation Brands offer to acquire their company and we are pleased that Vincor – Canada's leading wine producer – is now part of the Constellation Family. Vincor's strategic business philosophy was very similar to Constellation's, with an emphasis on growth from the base business, acquisitions and innovation. Vincor's wine portfolio and business is an excellent fit with Constellation's portfolio, and there is significant additional growth potential for brands such as Kumala from South Africa, Kim Crawford from New Zealand, Toasted Head from California and Jackson-Triggs and Inniskillin from Canada. Constellation's volume now represents more than four percent of the global wine market share and further improves our wine leadership position.

Vincor's brands will benefit from Constellation's wine production and distribution scale. Constellation will benefit by adding Canada as a fifth core market to its roster of key geographies including the U.S., U.K., Australia and New Zealand. This is a mutually beneficial combination of similar cultures, values and operating philosophies that is clearly focused on the creation of long-term shareholder value through growth of Constellation's wine business.

The more than 2,000 members of the Vincor team bring a wealth of incremental production, marketing and sales knowledge, expertise and vitality to the Constellation Family, and will be valuable in maintaining the growth momentum



for the wines they steward. The ongoing contribution from each Constellation Brands team member is valued and important to the future success of our entrepreneurially structured organization. This combined, world-class, all-star team is an integral and formidable force.

The Canadian regional business will function as its own operating company, reporting to Rob Sands, Constellation president and chief operating officer. The businesses in other geographies will be combined with existing Constellation operating companies and the best practices from these organizations will be adopted to better ensure growth and long-term value creation. Over the next few weeks and months, the Vincor integration will be completed around the world. The approximately 10,000 employees in the combined organization will continue to work at delivering superior beverage alcohol products, growing the business and creating long-term shareholder value, things we believe are core competencies at Constellation Brands.

**About Vincor** The Vincor story began in 1874 with the establishment of the Niagara Falls Wine Company. From that modest start, Vincor became one of the top 10 wine companies in the world by 2006, with production throughout Canada and in California, Washington State, Western Australia and New Zealand. Vincor's business also includes marketing wine from South Africa and vineyards around the world. In addition, Vincor has 163 Wine Rack retail stores in Ontario, Canada, as well as RJ Spagnol's winemaking kits sold in the U.S. and Canada, and the second largest refreshment/alcohol cooler business in Canada, with brands such as Vex, Growers Cider, Canada Cooler and Hydra.

Primary brands in the portfolio include Jackson-Triggs, Inniskillin, Sumac Ridge, Hawthorne Mountain, Sawmill Creek, Notre Vin Maison, Entre-Lacs, L'Ambiance, Caballero de Chile, Ancient Coast, Bellini, Sola Nero, Spumante Bambino, President Canadian Champagne and Okanagan Vineyards from Canada; Hogue, Toasted Head, R. H. Phillips, EXP and Kempton Clark from the U.S.; Amberley, Fox River, Goundrey and Langton from Australia; Kim Crawford from New Zealand and Kumala from South Africa.





#### DEAR FELLOW SHAREHOLDERS

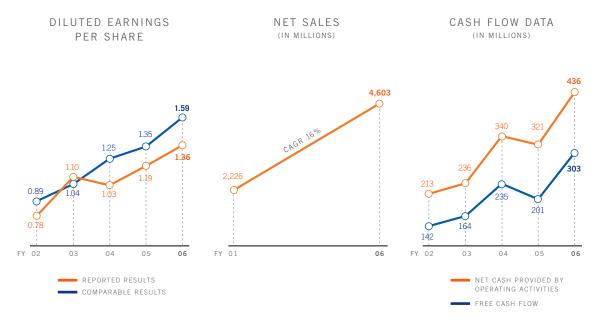
Reflecting upon all that we achieved in fiscal 2006, I believe you'll agree it was a very dynamic and good year for Constellation Brands as we continued building upon our tradition of excellent marketplace and financial performance. I am pleased to report that we again set records for net revenue, diluted earnings per share and net income, while paying down a substantial amount of debt. Our strategy of participation in growing beverage alcohol categories and geographic regions played a significant role in maintaining our growth momentum, while our business and consumer insights assisted management in fine tuning our structure, operations and offerings to meet ever-changing consumer tastes and marketplace needs.

Constellation's year-over-year net sales rose 13 percent to \$4.6 billion, while reported and comparable net income and diluted earnings per share all experienced double-digit increases. Our fiscal 2006 performance clearly demonstrates the *strength in numbers* theme of this annual report. In June 2005, Standard and Poor's selected Constellation to join its S&P 500 Index, which took place on July 1 last year, and it is a status we are particularly pleased about attaining because it recognizes the value and growth of our company. Constellation's 2005 performance also helped earn us a place on the prestigious Fortune 500 list of companies in April 2006. These two achievements are indicative of our ongoing efforts to grow Constellation's business and increase shareholder value.

Also indicative of our fiscal 2006 efforts was the *financial discipline* we exerted throughout the year in a number of areas, including acquisitions. This helped us achieve the levels of marketplace and financial performance documented in this report. Importantly, our *growth strategy, consumer insights, financial discipline* and *consistent performance* form the four pillars supporting our sustained profitable growth, and these four business principles heavily influenced the results we were able to deliver in fiscal 2006. Operating by those principles and our core values, Constellation's worldwide family of dedicated people remain committed to growing the business while constantly improving every aspect of our company. They are the reason Constellation is able to achieve its goals.

In the balance of this letter, I will address our strategy, insights, discipline, and performance in greater detail. I believe it is important for you, our shareholders, as well as other readers of this report, to know more about how we employ these key business principles to grow our business and increase shareholder value on a sustained basis.

In keeping with our historic *growth strategy*, which is based upon portfolio breadth and geographic distribution scale, we harvested numerous opportunities throughout fiscal 2006. We added Rex Goliath to our wine portfolio, renewed our relationship with Baron Philippe de Rothschild S.A. to jointly own and operate Opus One and gained U.S. distribution of other brands in that Rothschild portfolio. In addition to an array of new product introductions by our wine and spirits companies, we purchased



Please see page 33 for further information regarding non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures.

Cocktails by Jenn, struck an import agreement to expand the Meukow Cognac business in the U.S., completed the integration of The Robert Mondavi Corporation and ramped up our U.S. distribution of the Ruffino Italian fine wine brands. We also substantially increased distribution of new package configurations for our Modelo Mexican beer brands in our U.S. territory, which was a catalyst for the significant, above-category growth of Corona Extra, Corona Light and Modelo Especial in fiscal 2006.

We continued to look for value-creating acquisitions and pursued those which met our financial criteria to truly grow our business through incremental profits above our cost of capital, something I described in last year's annual report as our "True Growth" model. After a thorough review, we determined that some of those opportunities were better left unharvested, while others were pursued.

One opportunity that wasn't better left unharvested was Vincor International Inc. While our initial effort to acquire Vincor in fall 2005 did not prevail, the situation changed dramatically in March and early April 2006 when the management and Boards of both companies, through the diligence process, confirmed the natural fit and long-term benefits. From diligence flows value, and after thorough diligence we were able to reach a price which Vincor's Board and management agreed was full, fair and justified. We shared that opinion, and are enthusiastic about the opportunity to add the number one wine position in Canada to Constellation's holdings, while also adding key brands in other geographies that are complementary to our existing portfolios. We are very pleased at the outcome, and are confident that this acquisition will contribute significantly to Constellation's future growth and shareholder value.

As we continue to review growth opportunities, including acquisitions, our financial discipline will help ensure that our actions continue to drive long-term value. We must be thoroughly convinced that the numbers work and will result in greater shareholder value. We evaluate each opportunity for its potential growth value, as well as for its potential synergies. Some opportunities are predominantly growth oriented add-ons to Constellation's business, such as Hardy. Some are primarily synergistic, such as Black Velvet. Some are a combination of growth and synergy opportunities, two examples being Robert Mondavi and Vincor.

Regardless of the surface appeal of any specific deal, if it doesn't measure up to our financial criteria we won't pursue the transaction. Our financial discipline must be followed – it's that simple.

Our base business growth is equally as important to achieving increased shareholder value, and our extensive expertise and experience at effectively and efficiently integrating acquisitions means that we maximize the potential value from those transactions over the long term. We also successfully grow our business through an understanding of consumer beverage alcohol needs, wants and desires.

Consumer insights are wonderful to have, and we believe that we have the best in our business sector. An excellent example is the groundbreaking research our wine group conducted in fiscal 2006 with 3,500 U.S. wine consumers. The insights from that research are helping us to better understand wine consumers and have already aided in expanding our offerings throughout our portfolio. We also believe our consumer insights make up one of our core competencies and they enable us to successfully bring new products or line extensions to market in a timely way, maximizing value for us as we ride the crest of consumer trend waves.

Consumers tell us they want variety. By using our decentralized organizational model of local trading and brand owning companies in key international markets, and geographically advantaged facilities where we produce beverage alcohol drinks, we can meet those needs by remaining close to our customers – wholesalers, distributors and retailers. We also maximize the utilization of our research as an insights conduit between consumers and our marketing and sales teams.

Armed with consumer insights from around the world, we have the ability to introduce wines that connect with consumers based on the different tastes and attitudes of key consumer groups in various international markets. Recent examples of this are Monkey Bay sauvignon blanc from New Zealand, Twin Fin and 3 blind moose California lifestyle varietals, and Four Emus and Kelly's Revenge from Australia, all of which were 2005, top-10, new wine introductions in the U.S. according to Information Resources, Inc. (IRI). We also grow our imported beer business in the U.S. by continuously learning more about who drinks the brands we market, why they drink them and the packaging they prefer.

It was also consumer insights about premium spirits that led to the purchase of Effen Vodka, our purchase of Cocktails by Jenn and our import agreement for Meukow Cognac in 2005, as well as expanded distribution for recently introduced premium brands including Ridgemont Reserve 1792 bourbon, Balblair single malt scotch whisky and Danfield's Canadian whisky. Consumer insights, together with our nimble, entrepreneurial, decentralized structure, form a powerful combination to promote and support our branded beverage alcohol business growth.

As I have already emphasized, Constellation's strategic focus remains on the long-term growth of our base business, in addition to acquisitions. We are confident of our ability to grow our base business at above-category levels, and believe that this growth is sustainable for the long-term. In addition, we continue to leverage organic growth into higher levels of EBIT growth and increasing levels of Return on Invested Capital ("ROIC"). This represents true growth – growth which creates shareholder value.

When we do everything correctly – follow our strategy, use our insights and apply our *financial discipline* – the result is successful and consistent marketplace and *financial performance*. At the beginning of this letter I provided some financial highlights to illustrate our year-over-year delivery of improved revenues, net income and earnings per share, in addition to significant debt reduction. We also measure our performance in other ways. We invest to improve the quality of the brands we produce. That may take the form of investment in vineyards, wineries, wine and spirits technology, oak barrels, distilleries, information systems, bottling equipment or the many other investments we make to ensure nothing less than the best quality alcohol beverages for our customers and consumers.

Equally important to achieving our performance goals are the values we hold dear as a company. Placing an emphasis on people, quality, customer service, integrity and entrepreneurship began when Constellation was founded in 1945. These five areas of emphasis form our core value system, in which the Constellation "Family" has a great deal of pride. We apply these values to our daily business activities, and will continue to do so because it makes good business sense.

The business world continues to gain complexity on an almost daily basis, and we believe the success we've had in building Constellation Brands into the international beverage alcohol company it is today speaks volumes about our values, people, processes, structure and brands. I believe that we have demonstrated our ability to deliver shareholder value and grow our base business, as well as to successfully acquire and integrate other businesses and brands.

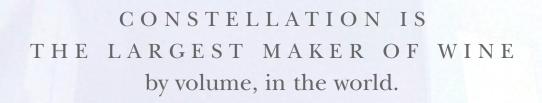
We will continue to target delivering above-category growth, just as we've strived to do over the 60 years we've been in the beverage alcohol business. We've grown our revenue thirty-fold since 1990, and we know how important focus, commitment and allocation of appropriate resources are to achieving any of our stated objectives. We never take our success for granted and know what is required to continue delivering stellar results. I have a great deal of confidence about Constellation's long-term focus and commitment to deliver profitable growth while increasing shareholder value.

As we proceed through fiscal 2007 and continue to grow our business, we will remain ever vigilant for unharvested opportunities, which we work hard to turn into increased shareholder value. As a leader in the international beverage alcohol business, our owners, customers, employees and business partners deserve nothing less.

**Richard Sands** Chairman of the Board and

Lichard Sand

Chief Executive Officer







Constellation Brands' 16 percent net sales growth rate over the past five years resulted from taking advantage of a series of strategic opportunities one at a time. Our success underscores an unyielding resolve to uncover, capture and harvest meaningful base business and acquisition growth prospects in all three of Constellation's beverage alcohol categories of wine, beer and spirits, and across all geographies.

Globally, Constellation Brands is the largest wine producing company by volume. We are also the third largest U.S. beverage alcohol company based upon retail sales in the food and drug channels. Constellation's Mexican beer portfolio is the undisputed imported beer leader in our west and midwest U.S. territory, and our North American spirits division ranks among the top in its category.

At Constellation Brands we grow by applying our historically successful formula: generate economic profit on investments exceeding their cost of capital. Constellation's recent annual net sales growth target has been 15 percent through a combination of organic expansion and acquisitions.

IDENTIFYING AND HARVESTING OPPORTUNITIES To achieve the growth we have targeted, Constellation must harvest opportunities with the commitment, accountability, adaptability and assertiveness expected of a world class organization. Doing so means we carefully balance resourcefulness on one hand – with resources on the other. Constellation Brands employs ingenuity and imagination to explore concepts that will create incremental value for our business. We have the production, distribution, innovation, consumer research and financial capabilities to pursue attractive opportunities and to subsequently enhance their value to the mutual benefit of Constellation and our trade customers, retailers, consumers, shareholders and employees. Additionally, our managerial, marketing, and financial expertise has been tested and proven under the most demanding market-place circumstances, and in a dynamic and highly competitive international business environment.

Creative, operational and human capital has been critical in the formation of Constellation's most compelling asset: our powerful and unsurpassed portfolio of brands. Trusted by consumers and valued by distributors and retailers, this essential and dynamic lineup serves Constellation especially well within the higher-end premium categories where we target our investments and place our greatest emphasis.

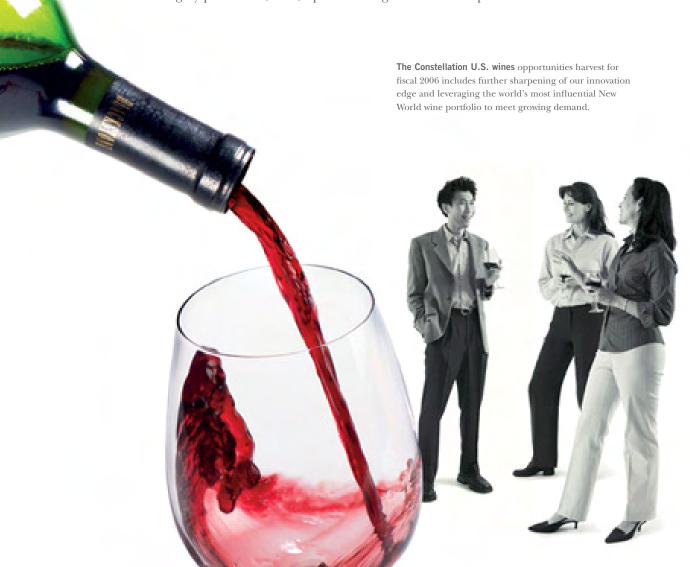
Our portfolio allows Constellation Brands to be international in scope, yet local in focus. Combined with the portfolio, our highly decentralized structure advantageously positions the company to provide superior customer service by being close to regional markets and consumers. Our decentralized organizational structure and operational philosophy also enables Constellation to quickly identify and respond to emerging consumer trends – most notably, the growing preference by consumers for premium beverages in most developed markets.

U.S. WINES Wine is a primary growth driver within the beverage alcohol industry because it presents the greatest opportunity for innovation and expansion. Whether part of the company's base business or recent acquisitions, the brands in Constellation's unrivaled portfolio strategically position us to harvest further opportunity in the U.S. market where New World wine holds an 86 percent share.

Importantly, approximately 30 percent of Constellation Wines' growth in 2005 resulted from creating and introducing new wines, including the industry's most successful and innovative new brands as measured by a major syndicated data gathering organization: Twin Fin from California, Monkey Bay from New Zealand, and 3 blind moose from California captured the top three spots, respectively, followed by Four Emus ranked number eight and Kelly's Revenge ranked number 10, both from Australia.

A global industry as fragmented as wine provides excellent expansion opportunities for Constellation. Expansion took on a new dimension for us in fiscal 2006 with the Robert Mondavi acquisition and Ruffino distribution arrangement fully integrated into the company and, together, generating one quarter of the total growth percentage for Constellation Wines. The remainder of our fiscal 2006 wine growth came predominantly from branded wines including Blackstone, Ravenswood, Hardys wines from Australia and Nobilo wines from New Zealand.

The profound significance of the Robert Mondavi acquisition is underscored by its sales contribution of approximately nine million cases of wine. The resulting breadth, scope and stature of our aggregate wine portfolio is unmatched by any producer in the world. Today, Constellation is the U.S. leader in the highly profitable \$5 to \$9 premium segment with a 25 percent domestic wine market



share. In the \$9 to \$12 super-premium segment, where Robert Mondavi Private Selection, Blackstone and Ravenswood are key brands, we hold a 28 percent share in the domestic wine market. The smooth integration of the Robert Mondavi organization within Constellation's U.S. production, sales and marketing structure perfectly illustrates the depth of experience and strength of management within our U.S. wine organization.

Taking a look at the strong performance of our base wine business in fiscal 2006, it clearly demonstrates that we have the right strategy and infrastructure to recognize and harvest the fullest potential from both new and existing brands in our global portfolio.

INTERNATIONAL As New World wine imports generate double digit worldwide growth, Constellation holds the number one position in the U.S. and the U.K., number one in volume in Australia, and ranks a solid number two in New Zealand.

Hardy Wine Company grew its top volume ranking in the extremely competitive Australian market despite consolidation by major competitors. Its consistent high-performance portfolio includes Alice White, one of the best selling Australian wines in the U.S. market, Hardys and Banrock Station. In 2005, Hardys became the first Australian wine brand to ever achieve annual sales of five million cases in the U.K.

Nobilo, New Zealand's second largest winemaker, produces that country's two most popular wines in the U.S. market, Monkey Bay and Nobilo's Regional Collection. Within its first year, Monkey Bay captured one-third of the quickly growing New Zealand wine segment. Internationally, Nobilo volume grew 25 percent last year, and the company exported more than one million cases for the first time in its history. Sporting a nautical theme reminiscent of Nobilo's homeland, The Jibe wine brand is gaining strong sales support on the U.S. Eastern seaboard where sailing is popular.

In line with this growth, two significant developments are emerging within the international wine market. Increasingly, consumers are moving from beer and spirits to wine, and in many countries where Old World wine predominates, New World wine is gaining ground on competing beverage alcohol products.

Both trends are evident in the U.K., where Constellation Europe enjoys a harvest of opportunities with a wine market share more than twice that of its closest competitor. While Australian wines have ranked number one in the U.K. for several years, if recent trends continue, we believe the fast-growing California wine segment could overtake second place France within 18-24 months. In the U.K., Constellation wine volume from Australia increased at an above-category growth rate, and Constellation's U.S. wines grew at more than double the U.S. wine category in the U.K. Here, Stowells, a popular U.K. wine, topped the four million case sales mark, while Echo Falls, a California wine, topped one million cases. A weak U.S. dollar helped make California wines more affordable and they were embraced by consumers looking for superior quality and value when introduced in the U.K. market.

Cider made a strong U.K. comeback in 2005, and Constellation strengthened its position with two unique new entries: a more upscale Gaymers Original Cider in a draft beer bottle, and premium-end Gaymers Orchard Reserve targeted to an upper income clientele. Cider is a transition beverage alcohol product in the U.K., drawing consumers from beer, as well as citrus-flavored malt beverages and similar rum-based drinks in traditional beer-style bottles. Both new Gaymers entries should be strong growth drivers.

Constellation Europe is also looking to increase business in traditional western European markets, and sees further unharvested opportunities within Poland, The Czech Republic and Russia. Expanded production and distribution are under consideration.

Constellation International, based in Australia, covers a territory containing the two-thirds of the world's population not already served by the company's other operating entities. Markets include Japan, Canada, Latin America, the Middle East, plus other unharvested opportunities across North and South Asia.

Constellation Wines Japan KK serves this important wine market where we hold a significant share of the Australian and Californian wine categories. Direct selling to major retailers across Asia and Latin America is a strong emerging channel, and a growth opportunity which fits comfortably with Constellation's scale, resources and portfolio.

International Constellation opportunities harvested in fiscal 2006 meant leveraging the traditional popularity of brands from Australia, California and New Zealand, expanding Constellation's footprint and uncovering high potential export locales.

**SPIRITS** Barton Brands, Constellation's spirits division, is the leading producer in the American value market, and has a growing presence in the premium sector. In fiscal 2006, sales increased over four percent.

Consumers adopting the fashionable "cocktail culture" are responding very favorably to the exciting flavors, concepts, packaging, positioning, convenience and flair of new and recently introduced Constellation premium spirits. While the majority of our business lies within the value segment, Constellation's goal is to expand its mid-premium and premium spirits portfolio by targeting its spirits investments at this sector because that's where the industry is experiencing significant true growth. The style-conscious, contemporary cocktail enthusiast is more likely to experiment and embrace higherend, fruit flavored, designer cocktails and single-serve pre-mixed drinks. Of legal drinking age, this discerning customer is likely to be a relatively younger female with a much higher level of disposable income when compared to previous generations.

In 2005, Constellation acquired Cocktails by Jenn – single portions of four popular mixed cocktails created primarily for women, age 21 to 40. Cocktails by Jenn provide bartender-quality drinks with complete convenience, and without the need for a bar full of ingredients. Possibly the textbook definition for unharvested opportunity, Constellation's spirits market specialists discovered this highly innovative product in Northern California, where it was selling well despite limited distribution. It was obvious to the Constellation spirits team that Cocktails by Jenn has tremendous potential growth opportunity in national distribution, and initial sales figures appear to bear this out. We also believe there is significant potential to expand Meukow Cognac (pronounced Mee-cow), a premium brand for which Constellation acquired domestic distribution rights in 2005. Like Cocktails by Jenn, and recently introduced super-premium Effen Vodka and Effen Black Cherry Vodka, Meukow is flourishing under the expertise of Constellation's distribution, marketing and sales team.

Sales of Chi-Chi's premium pre-mix cocktails rose nine percent in fiscal 2006, and is poised to reach 400,000 cases in the near future, breaking through the clutter in an otherwise flat market. Caravella

Limoncello boosted sales 25 percent and reinforced its market leadership in fiscal 2006. Both brands leveraged their market appeal through tie-in promotions with precisely targeted cable television programming appealing to female consumers.

The national rollout of Ridgemont Reserve 1792 small batch bourbon will be complete by mid-year 2006. Featuring eye-catching, distinctive packaging, this recently introduced premium product expects to secure a 10 percent market share in its segment.

Malt whiskey is gaining popularity and market share, especially among the more traditional male consumer and Constellation enhanced its premium single malt scotch whiskey portfolio with the addition of distinctive 16-year-old Balblair, joining Old Pulteney and Speyburn, also from prominent Scottish distiller, Inver House.

Black Velvet Canadian Whisky, Constellation's largest selling spirits brand, continued to demonstrate true growth leadership with impressive performance in an otherwise lackluster Canadian whiskey market while Black Velvet Reserve, appealing to a more upscale consumer, grew sales impressively by 18 percent. Constellation is expanding distribution of this product further within established markets where it has performed very well.

Constellation spirits' close-to-the-market strategy uncovers strategic export opportunities ripe for harvesting. Black Velvet has more than doubled its volume in Europe, spurred in part by the success of Black Velvet Reserve. Leveraging Constellation's routes to market, the spirits group is exporting Effen Vodka to the U.K., and expanding the brand's presence in Australia, where it will soon be available through a leading grocery chain. Constellation will apply this strategy to additional geographic expansion of premium spirits brands, including Cocktails by Jenn.

Harvest opportunities in fiscal 2006 for Constellation distilled spirits include continued further positioning of the portfolio within the mid-premium and premium sector attractive to higher income consumers, and maintaining strength, vitality, and a solid base of revenue within our value segment.



IMPORTED BEERS Constellation's Barton Beers group is driving growth in the profitable import category, consistently outperforming every segment of the U.S. market. Our portfolio includes five of renowned Mexican brewer Grupo Modelo's powerful brands, including Corona Extra, Corona Light, Modelo Especial, Pacifico and Negra Modelo, all sold within Constellation's U.S. territory of 25 mostly western states.

Led by Corona Extra's record national sales of 100 million cases, the full Constellation portfolio rose 13 percent, double the growth of the entire imported beer segment. This was achieved in an overall flat domestic beer environment suffering from severe price pressure and intense competition.

Constellation's imported beer portfolio achieved record sales in 2005. Corona Extra continued to extend its lead as the number 1 selling import in the U.S. As the number 4 best selling import in the U.S., Modelo Especial will soon be ranked number 3, and is currently considered the hottest imported brand in the U.S. market.

Leveraging unique retail sales concepts, Constellation Beers and Grupo Modelo partnered to develop new, highly successful packaging throughout the Modelo portfolio, contributing to a net gain of 8.7 million cases of beer in fiscal 2006.

Constellation also sells two brands nationally, St. Pauli Girl from Germany and China's Tsingtao Lager. St. Pauli Girl was, once again, one of the best performing European imports in 2005, while Tsingtao extended its leading position across Asian imports.

Constellation is poised to take advantage of an outstanding unharvested opportunity in the imported beer market. The market share for "high-end" beers, including imports and domestic craft brands, is only half that of premium wines and spirits. Gaining one percentage point within that gap represents sales of 28 million cases of beer.



## CONSTELLATION'S IMPORTED BEER PORTFOLIO achieved record sales in fiscal 2006.





# CONSTELLATION'S NET SALES HAVE GROWN AN AVERAGE OF 16% OVER THE PAST 5 YEARS through organic growth and strategic acquisitions.



Constellation Brands' superior market intelligence is based on consumer research and insights along with distributor and retailer feedback. This deep pool of knowledge has helped shape effective strategies encompassing ongoing portfolio development, innovative marketing and expanding distribution, making Constellation one of the most progressive companies in the beverage alcohol industry. Consumer and business insights helped us refine our focus on the profitable and growing premium end of the spectrum across all three product categories.

Extensive analysis of our consumer insights confirms that consumer preference for quality and value is increasing and intensifying activity in the premium segment of beverage alcohol. While the wine industry is growing, sales of value wine have slowed as consumers trade up to more premium wines. Due to the faster growth of premium priced products, dollar value growth is actually outpacing volume growth as these premium priced wines propel this category. Activity within both the value segment of the distilled spirits industry and domestic beer sector are relatively flat, yet premium spirits and imported beers are experiencing solid performance and Constellation is well positioned to take advantage of this trend.

SPIRITS INSIGHTS Over the last five years, Constellation has increased its presence among premium distillers by investing primarily in our growing premium line. Pursuing a proven formula supported by solid market intelligence, Barton Brands focuses on emerging trends, including pre-mixed sophisticated cocktails, and powerful niche opportunities, such as flavored vodkas and other spirits. In addition to being a distiller of premium spirits, we have distribution agreements for brands such as Speyburn from Inver House in Scotland, import arrangements for brands that include Caravella Limoncello and Meukow Cognac, as well as dynamic joint ventures for brands such as Effen Vodka, all of which continue to benefit from our scale and expanded distribution, which makes the most of the huge growth potential within brands such as these. Our distribution capabilities and insights comprise another core competency which helps differentiate Constellation from its competitors.

Constellation also maintains a separate sales force specifically for Effen vodkas, focusing solely on the top-level on-premise market. Developing one-on-one credibility with bartenders and wait staff is critical for both the distribution and introduction of such an extremely high-end product. Here, bartender input helped develop Effen's unique latex sleeve that resists slippage and maintains chill. This is the type of invaluable, on-premise, trade insight that helps us reach consumers through trial and sampling of an excellent vodka brand such as Effen and further endorses the value of insights in harvesting opportunities to grow our business.



Since its launch, Cocktails by Jenn has quickly become one of Constellation's fastest growing new product introductions.





ON TRACK TO REACH THE 130,000 CASE LEVEL, the 99 brand of schnapps continues to excite consumers with its fruity palette of flavors.













WINE INSIGHTS Consumers learning to appreciate wine, especially New World wine, tend to trade up over time, demanding greater variety, higher quality and value. Constellation's portfolio of higher price point premium wines not only outperforms the remainder of our portfolio, it also outperforms the respective price segments of these wines within the industry. Applying such market intelligence strategically is critical to success within the wine industry. The shifting consumer preference toward Australian wines, for example, precipitated Constellation's acquisition of BRL Hardy in 2003, while the marketing and distribution scale and clout of a comprehensive portfolio at all price points facilitated the Robert Mondavi acquisition the following year.

In New Zealand, consumer insights led to Nobilo's development of Orca Bay and Five Fathoms wines, in tandem with sales and marketing experts from Constellation Europe, and targeted squarely at an underserved price point in that market. In response to customer demand for a red New Zealand wine to complement their sauvignon blanc presentations, Constellation invested in a new Nobilo winery in the Hawkes Bay area, primarily for merlot, while continuing development of its pinot noir offering from Marlborough.

Recently, Constellation conducted an in-depth research study of the U.S. wine market, where it holds nearly a 20 percent share. In this groundbreaking piece of research, 3,500 premium wine customers responded to more than 100 questions on their wine purchasing and consumption habits, in addition to questions about the attitudes and lifestyle factors influencing their wine purchase decisions. The conclusion was clear: there is no typical wine consumer. Rather, wine drinkers tend to fall into one of six specific segments, each with its own set of attributes, motivations, preferences and shopping behaviors.



Image Seekers 20% like to feel sophisticated on one hand, yet fun, adventurous and trendy on the other. They prefer 3 blind moose, Twin Fin and Rex Goliath, as well as Franciscan Oakville Estates.



Savvy Shoppers 15% enjoy finding a great wine at a great value. Covey Run, Papio, Knife & Fork and Estancia work well for these consumers.



Enthusiasts 12% are passionate about the entire wine experience, from researching what they buy, to sharing discoveries with family and friends. Robert Mondavi Winery, Blackstone, Alice White, Mouton Cadet and Ravenswood fall into this selection set of wines.



Overwhelmed 23% look for an informative shelf description, or the recommendation of retail wine staff as key to their purchasing decision.
Woodbridge by Robert Mondavi and Woodbridge Select Vineyard Series by Robert Mondavi are two wines these people would be comfortable purchasing.



Satisfied Sippers 14% look for a sensible choice they would be comfortable serving to family and friends. Nathanson Creek or Vendange would satisfy their wine needs.



Traditionalists 16% want to know that their wine is made by a well-known, long-established winery. Franciscan
Oakville Estates, Robert
Mondavi and Simi fall into their selection set.

The results formed the backbone of Constellation's U.S. premium wine (\$5.50 + per 750 ml bottle) business strategy, including brand positioning, new product development, and promotional analysis. The study also provided strategic relationship-building insights with critical distributor sectors. By analyzing the wine lists of several national restaurant groups and the wine assortments of key national retailers, Constellation sales and marketing specialists target specific recommendations in line with the identified needs of their divergent premium wine customer segments. Crucial promotional calendar, store signage and store assortment decisions have also been aided by this research.

BEERS INSIGHTS All seven Constellation beers impressively outperformed their respective import market categories in fiscal 2006, and strong partnerships both with the brewers and our distribution network played significant roles in maintaining this extraordinary growth momentum in an overall flat U.S. beer market. Our Barton Beers unit keeps its fingers on the pulse of consumer trends and opportunities through both its very active Wholesaler Council, where it meets regularly with a representative group of wholesalers to actively address issues and opportunities, as well as through an annual management tour of wholesalers and retailers just prior to the important Cinco de Mayo holiday leading into the summer sales season. During the tour, the entire staff of Barton Beers executives and many middle managers tour the territory to personally meet with distributors representing the majority of Constellation's annual beer volume. Developing and sustaining such high-level relationships resulting in mutually beneficial partnerships is unique within the beer industry, and has paid significant dividends in the form of a unified goal to grow Constellation's beer business at above-category rates. Each year's management tour helps generate a set of best practices, insights and strategic intelligence for branding, packaging and other product decisions that will contribute to growth throughout the year.

Working with both Grupo Modelo and wholesalers, Barton Beers successfully developed 24-packs of loose-bottle cases of Corona Extra for the increasingly important club store channel, and 24-ounce versions of both Corona Extra bottles and Modelo Especial cans (to be introduced mid-year 2006) for convenience stores. Responding to market intelligence, Barton is strategically promoting Modelo Especial with Negra Modelo to increase sales and awareness for both brands. In the Far East, on-site market analysis in China uncovered U.S. domestic opportunities for Tsingtao Pure Draft, a new entry into the marketplace, and one which represented a previously unharvested opportunity.

At Constellation we firmly believe that our consumer and business insights set us apart from the rest in the field of beverage alcohol players and help us harvest growth opportunities quickly, efficiently and effectively. We will continue to invest in maintaining and building our knowledge about consumer wants, needs and desires as they relate to the beverage alcohol business. It's in our interest to know how best to fill the ongoing needs of consumers and distributor customers.



GLOBAL PERFORMANCE Constellation Brands' portfolio brims with powerful, consumer-preferred, thriving beverage alcohol brands spanning all categories and key geographies. Our success is demonstrated by satisfied, loyal customers and distribution partners, and, most certainly, by our financial performance – the ultimate measurement and metrics of corporate prosperity. Combining our unequalled wine, and imported beers portfolios, and our growing and expanding premium spirits offerings, with our distribution capabilities, extensive insights and proven growth strategy, Constellation's performance set records for net sales, net income and diluted earnings per share. Importantly, our growth momentum and continued stellar performance has its basis in our corporate values and culture, and in the many small things that our outstanding Constellation worldwide team does on a daily basis to assure our success.

Constellation generates stellar top- and bottom-line performance by leveraging two of its most powerful assets – a portfolio of compelling brands and some of the most enviable routes to market in the industry – with a dynamic growth strategy and insightful market savvy. The strategic application of these forces generates impressive results by growing acquired brands, developing new brands, products, line extensions and packaging innovations that are then strategically marketed throughout Constellation's evolving international markets.



Constellation's Barton Beers subsidiary offers the most enviable lineup of imported beers in the United States. Barton Brands, Constellation's distilled spirits producer and marketer, provides a full range of offerings energized by new premium products and extensions. From production locations and subsidiaries head-quartered on three continents, Constellation Wines' unrivaled portfolio is superior in breadth and scope to any other producer in the world.

#### **Constellation Beers**

The imported beer portfolio from Constellation embodies unsurpassed presence and performance. Corona Extra's commanding marketplace presence extends beyond its leadership position in both imported beers in the United States and Mexican beer throughout the world. Corona Extra is also the sixth largest selling beer of all brands in the United States. The popularity of this iconic brand is so profound that its 12-pack continues to be the largest selling beer SKU (stock keeping unit) in off-premise retail channels, including grocery, convenience and drug stores in the U.S. Confirming its lifestyle positioning and premium appeal within club stores, Corona Extra is the top-selling beverage alcohol product in one of the nation's leading club store chains. In California, the top beer consuming state, Corona Extra leads all beers sold in the San Francisco Bay area, based on IRI dollar sales, and ranks number two in America's second largest metropolitan area, Los Angeles, based on IRI dollar sales.

Light beer drinkers, who consume one-half of the U.S. beer volume, have propelled Corona Light to the number one among imported light beer in Constellation's territory of 25 mostly western states. Modelo Especial, extremely popular within the Hispanic community, demonstrates tremendous mainstream appeal and is staged to be America's next "discovery" beer.

St. Pauli Girl enjoys strong appeal among consumers of German beer, while St. Pauli NA is the leading imported non-alcoholic beer. And, Tsingtao Pure Draft – planned for an introduction in summer 2006 – is highly anticipated among high profile Pan Asian restaurants across the U.S.

#### **Constellation Spirits**

Many new product development and line extensions from Constellation Spirits are being embraced by younger, more contemporary, legal drinking age consumers. This demographic has a preference toward fruit flavored spirits and a willingness to experiment in the premium segment of the category. From our insights and market research we already knew that there existed a trend among female consumers to discover new and different spirits-based beverages. Armed with this knowledge, when the opportunity to acquire Cocktails by Jenn, a new line of ready to serve martini cocktails, came our way we were well prepared to seize the opportunity.

#### Chi-Chi's Cocktails

Based upon the successful growth and performance of Chi-Chi's existing set of cocktails, Mai Tai and Appletini joined Chi-Chi's premium lineup of pre-mixed sophisticated drinks. Complementing Long Island Iced Tea, Cosmopolitan, and Pina Colada, Chi-Chi's created Gold Margarita by reformulating its extremely popular traditional Margarita.

Di Amore cordials are significantly ahead of the industry pace. Placing Amaretto and Sambuca formulations into Duty Free America shops was a significant breakthrough for this popular Constellation focus brand in fiscal 2006.

Effen Vodka assumed a sponsorship role for the Rolling Stones U.S. tour to gain distributor credibility and to break through the cluttered super-premium vodka market. Adding a clever touch to traditional point-of-sale promotion, Constellation secured a Rolling Stones CD to each bottle during a holiday 2005 promotion. Since Constellation entered into the joint venture to market Effen Vodka, shipments are up

99 is the very popular, flavored schnapps brand developed and produced by Constellation. Its flavor palette of banana, orange, blackberry and apple will expand with black cherry in 2006, and the 99 brand is on track to reach the 130,000 case level. In fiscal 2006, The 99 Party Patrol, touring the country in a caravan of four specially designed Mini Coopers, created excitement in 21 lucrative markets, while raising 99's profile with significant wholesalers. 99 also introduced innovative chiller machines in several markets to provide consumers with ice cold flavored schnapps drinks.

#### **Constellation International**

successfully introduced several new wines into specific markets, including Gold Vine Concord wine for Korea. Inglenook 750 ml bottled wine is doing very well in the Philippines and Malaysia, while 500 ml Tetra Pak branded wines from Australia and the U.S. are popular in Canada.

#### **Constellation Europe**

While the U.K. off-premise market is well developed in multiple grocers, Constellation Europe designed two additional wines, Mill Cellars and Nobilo Southern, specifically for the well respected and lucrative pub and restaurant trade. The popularity in this channel of wines from Australia and New Zealand in Great Britain is underscored by the success of Hardys Riddle, Four Emus, Banrock Station Ball Island and Nobilo Southern Rivers.

Hardy Wine Company's contemporary range of Australian wines is growing ahead of its markets. The introduction of Sparkling White Shiraz was one of several elements igniting double-digit Banrock Station performance. A contributing factor going forward, Banrock Station wines has received substantial listings with a major retail customer in the U.S., a significant channel breakthrough. Also for the U.S. market, Hardy repackaged its historic Houghton label which is already experiencing excellent trade acceptance in its launch phase.

Nobilo Wine Group brands have continued to grow considerably in both the domestic and international markets. This growth has been led by the core brands Nobilo Regional Collection and Selaks Premium Collection with Monkey Bay, The Jibe, Nobilo Orca Bay and Nobilo Five Fathoms also contributing.

#### Constellation Wines U.S.

The unique portfolio of Constellation Wines U.S. spans virtually every variety and price point. Its new product development efforts, begun five years ago, are contributing significant top- and bottom-line growth as witnessed by the extraordinary popularity of Twin Fin and Monkey Bay. Strong consumer response greeted Arbor Mist 4-pack "minis" and Vendange in 500 ml Tetra Pak containers.

Powerful organic growth by Blackstone, Ravenswood, Simi, and Franciscan supports Constellation's nearly 20 percent share of the U.S. wine market, while Ruffino allowed for a strong entrée into the Italian segment where Constellation had virtually no previous presence. Constellation Brands continuously validates its financial discipline in every aspect of its operations through a proven track record of building shareholder value from a judicious acquisition strategy, investments in the company's base business to generate true growth, a decentralized operating philosophy, and a predisposition to achieve excellent results.

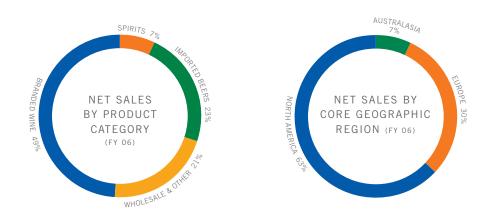
TRULY GROWING SHAREHOLDER VALUE Growing Constellation shareholder value is primarily the result of having the most enviable product portfolio in the beverage alcohol industry, highly developed and complete routes to market, and an operating structure specifically designed to reduce expenses, maximize flexibility, simplify the reporting structure, bolster distributor relations, generate strategic and tactical market insights and foster an entrepreneurial spirit. These factors are evident in Constellation's fiscal 2006 solid top- and bottom-line performance. Driving growth in our unmatched branded beverage alcohol portfolio, combined with strong margin expansion, we continued to generate strong earnings per share growth.

The marketplace significance of our diverse portfolio and operating scale cannot be overstated. Sales of Constellation fine wines outperformed the industry at every price point – super-premium, ultra premium and luxury. While overall consolidated net wine sales were propelled by the Robert Mondavi and Ruffino brands, sales of branded wines were driven by trends toward premium labels, and, especially in the U.S., increased consumer spending on wine and a greater demand for variety. Acquisitions such as Rex Goliath, as well as import arrangements for numerous brands of Baron Philippe de Rothschild wine, including Mouton Cadet, strengthened the company's number one global wine position. Sales of premium spirits increased, as Constellation introduced new products, both organically and through acquisitions and partnerships.

Additionally, Constellation's imported beer sales almost doubled the pace of its nearest competitor. Strong relations with our brewing partners resulted in creative packaging concepts specifically in response to emerging retail trends, providing additional growth momentum.

This improved sales mix was a primary contributor to a significant increase in operating margins. The breadth and scale of our portfolio is especially valuable to distributors and retailers where "one-stop" sourcing is so critical.

Additional portfolio expansion opportunities within the spirits category are expected to generate dynamic growth among premium brands over the next five years. With consumers trending toward premium spirits, new and innovative premium brands with material volume are beginning to emerge in the marketplace. Cocktails by Jenn is a perfect example of how such brands can flourish through Constellation's scale and routes to market.



DELIVERING THROUGH ACQUISITIONS Perhaps more crucial than any other consideration, potential acquisitions demand the critical analysis of financial discipline. While the Robert Mondavi acquisition filled significant gaps within our premium wine portfolio, and the Hardy acquisition made us the world's leading New World winemaker, not all acquisition inquiries are pursued to fruition. In spring 2005, Constellation Brands was part of a consortium that had considered, but ultimately decided against, the acquisition of Allied Domecq plc. Constellation believes that the economics of a particular situation determine whether or not an offer will be made. Such a transaction must create value for our stakeholders. Constellation will maintain its financial discipline in order to not overpay for any acquisition.

An opportunity for long-term shareholder value creation through additional strong brands and new international growth opportunities was truly harvested in 2006. Constellation's acquisition of Vincor, a Canadian winemaker with the market leadership position and wineries across that country, in addition to smaller operations in the U.S., U.K., Western Australia and New Zealand, is a win-win value proposition for shareholders of both companies. Canada will become the fifth core market for Constellation, while new and existing brands will be added to our otherwise formidable portfolio in our other core markets.

#### TRULY GROWING OUR BRANDS, OUR BUSINESSES AND OUR EARNINGS.

Within the three beverage alcohol categories, growing product sales requires finesse and strategies beyond traditional consumer marketing and promotion approaches.

Younger, legal drinking age, more affluent consumers of premium spirits, frequently adopt an experimental approach to cocktails. Simultaneously, they are confronted by a growing variety of brands, blends and packaging. Within this category, new introductions like Effen Vodka, Meukow Cognac and new fruit flavored Chi-Chi's mixes are the result of our strong presence in a crowded market where we have a thorough understanding of the consumer.

Corona Extra continues to experience growing brand equity among consumers, retailers and distributors, underscoring the success of its extremely effective marketing strategy. Anchored for many years by a life-style advertising campaign as consistent as this beer's superior quality, Corona Extra sets the pace for performance within our Grupo Modelo beer portfolio – truly, the envy of the beer industry. Constellation Beers added considerable growth volume to an already impressive performance through niche packaging specific to particular retail segments.

Wine presents some of the greatest opportunities to grow sales within the beverage alcohol industry because of the aspirational nature of its consumers. Market analysis confirms that wine drinkers are inclined to gradually trade up to premium, super-premium and fine wine brands. The addition of Rex Goliath, Mouton Cadet, Robert Mondavi and Ruffino better positions Constellation to fully leverage this industry trend.

The breadth and scope of Constellation Wines can be summed up in a portfolio that includes many of the best known and most respected names in the industry, including Robert Mondavi, Simi, Estancia, Franciscan Oakville Estates, Ruffino and Mount Veeder. Add to this the impressive array of popular, premium and value segment brands such as Arbor Mist, Inglenook, Woodbridge, Alice White, Hardys and Nobilo, and you begin to understand why this portfolio is the envy of the wine world.

Within the U.S. market, Constellation's challenge was to build an organization that instinctively understood each market segment, and was sufficiently decentralized with appropriate resources and a portfolio maintaining concentration in each segment. Such a structure would allow us to fully leverage the size and scope of Constellation's wine portfolio. Each company that reports to Constellation Wines U.S. has its own focus and concentrates on its own consumer and retailer base:

- Icon Estates: fine wines, including Estancia, Simi, Franciscan Oakville Estate, and Robert Mondavi Winery;
- Centerra Wine Company (formerly Canandaigua Wine Company): affordable and popular, premium, and super-premium wines, including Robert Mondavi Private Selection, Ravenswood, Woodbridge by Robert Mondavi, Monkey Bay, 3 blind moose and Alice White;
- Pacific Wine Partners: concentrating on exciting wine brands and styles in line with market growth and trends, including Blackstone, Hardys, Nobilo, Black Box, Twin Fin, The Jibe, Starvedog Lane and Four Emus; and,
- North Lake Wines: a classic producer of highly regarded wines such as Paul Masson, Mouton Cadet, Taylor California Cellars, Inglenook and Marcus James.

While these four operating companies maintain separate sales and marketing organizations, they have formed unified channel management teams both for large, emerging, national accounts, as well as for export opportunities to Constellation markets around the world. Here, one salesperson or team, with the power of the entire Constellation wine portfolio, services a specific account, representing all of our wine brands.

Constellation is taking several strategic steps toward making wine more approachable to "millenials"—consumers who came of legal drinking age since 2000. Even though this group has approached wine with more sophistication than any previous generation, Constellation understands that these younger, legal drinking age, consumers often think wine purchasing is too complex. In response, we've made the experience more consumer friendly by using smaller containers, screw tops, and alternative packaging such as bag-in-a-box and Tetra Pak technology. These innovations add to a wine's flexibility and convenience, reflecting the informal lifestyle of these consumers who generally prefer a wine that's more fruit forward. Contemporary, irreverent names and labels such as Monkey Bay, 3 blind moose and Smashed Grapes also add to a wine's approachability. Newly acquired Rex Goliath, with an image of its namesake legendary 47-pound rooster on the label, has a very strong following with this fun-loving younger, legal drinking age, demographic group.

INVESTING TO GROW Around the world and across our categories, Constellation spends appropriately to support our business and attain our growth goals.

Throughout evolving Constellation markets in Asia and continental Europe, we've assigned sales and marketing specialists to widen our base and grow our brands. Our success in Japan is directly attributable to the creation of an on-site presence devoted strictly to that market. Mainland Europe, especially, is targeted as a significant wine growth opportunity for the harvesting.

The success of Nobilo Regional Collection and Monkey Bay sauvignon blanc wines have precipitated additional Constellation investment in New Zealand, both in vineyard acquisition and development for sauvignon blanc and pinot noir production, as well as facilities for making red wines. Distributors in markets around the world strongly demanded that Nobilo produce a New Zealand red wine to market alongside its two stellar white offerings.

Constellation's new state-of-the-art winery in Hawkes Bay, New Zealand is dedicated to merlot, initially, and will be followed later with syrah and sauvignon blanc production. The U.S., U.K. and Australia are specific target markets for red wines from this facility, as well as the emerging Asian markets where the potential is large. Current capacity at Hawkes Bay is 400,000 cases annually, and should reach 1.2 million within five years.

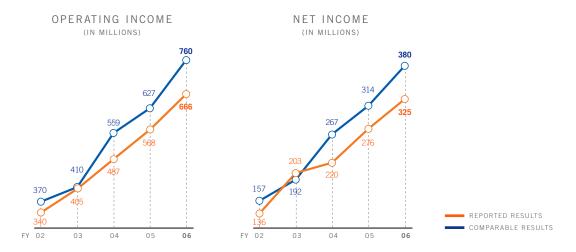
Constellation has also made significant investments overhauling the bottling lines at its Mission Bell Winery, in Madera, California, where we produce such powerful brands as Almaden, Inglenook, Paul Masson and Cook's. Mission Bell is the largest multi-faceted winery in the world. Its 13 bottling lines produce more than 100,000 cases per day. Constellation has also made significant labeling and bottling upgrade investments at the Robert Mondavi Woodbridge winery. These were precipitated by the rise in consumer demand for the winery's products since the Robert Mondavi acquisition in fiscal 2005.

SELF ASSESSMENT Across all its categories, Constellation's entrepreneurial, decentralized structure is constantly monitored and adjusted to insure peak performance. Constellation Wines has regional headquarters in the London, England area and Reynella, Australia, to maximize performance in Europe and all evolving markets of the world. In the U.S., our wine group is structured to maximize the value of our portfolio with distributors and the retail trade in an effort to provide consumers with the variety of wine they deserve. Within their category, Constellation's senior beer management regularly spends time in the field with distributors and retailers to insure that its five Modelo brands, as well as the St. Pauli Girl and Tsingtao brands, perform at full potential. Cocktails by Jenn was already selling well despite very limited marketplace presence and the spirits team at Constellation was quick to recognize the potential in this brand, which is now experiencing strong growth within a wider distribution arena. Sometimes, innovation comes about in unexpected ways, such as the stylish non-slip, stay-cool sleeve on our Effen Vodka bottle. Simply by talking to bartenders, the brand development teams were able to identify an improvement to the packaging that became both a trendy and practical design feature.

STRIVING FOR EXCELLENCE While Constellation concentrates its investment dollars within its premium categories, our bias for excellence is bolstered and sustained within all product categories, lines, price points and geographies. Constellation managers and worldwide employees derive a great deal of pride in making beverage alcohol products that rank among the best in the world. We aim high, and justifiably so. Certainly, we have won more than our share of awards from critics and other experts, but the most satisfying reward is the response our products receive from consumers around the world.

**Style-conscious** cocktail enthusiasts are quick to embrace designer cocktails and pre-mixed drinks.





Please see page 33 for further information regarding non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures.

**LEARNING FROM EXPERIENCE** Propelling Constellation's quality and innovation drive the lessons we've learned as one of the world's leading beverage alcohol producers and marketers. Clearly, true financial discipline is reflected in what we've taught ourselves:

- We've honed our analytical skills to view a potential acquisition from the shareholder's perspective. It must add value. We also understand that an otherwise under-performing asset can thrive within a deep and broad portfolio of products and brands, and a world class distribution system.
- We invest wisely. We expand capacity where it's most likely to provide outstanding long-term share-holder value. These investments include vineyards, wineries and distilleries, product research, as well as "feet on the street" in emerging markets where building an early foot-hold is critical.
- We leverage the world's most complete wine portfolio with a flexible and adaptable sales and marketing organization worldwide.
- We understand that fine wine cannot be marketed alongside other categories. It demands a separate sales staff dedicated to high-end accounts.
- We know that building our wine portfolio required expanding our selection in the mid-premium and premium categories. We are confident that this strategy is equally appropriate in our spirits business where trends are similar to those in the wine business.
- It's clear that emerging wine trends such as the growing appreciation for premium products, a proclivity by younger, legal drinking age, consumers for a fruit-forward, New World taste profile, convenient packaging, and a touch of irreverence necessitates new products, new brands and a new positioning of existing brands.
- We remind ourselves that the world is not one big market. It's a series of neighborhoods where our representatives must understand, respect and meet local needs as they act to leverage our global scale and portfolio.
- The key to financial discipline is pride in our performance, but never satisfaction.
- Ownership is the keystone to organizational success. In our flat and flexible, decentralized structure, our people in hands-on situations, whether facing a sourcing issue or a customer's concern, are self-accountable for meeting the challenges and harvesting the opportunities they encounter every day.
- Doing what is right based upon our culture and values; ethically, fairly, truthfully, legally and openly.

**BLAZING THE TRAIL** At Constellation Brands, fiscal discipline sets high expectations for achieving what nobody else has accomplished. We reinvigorate brands, we reposition our portfolio, we leverage our distribution capacity and we get results. Creating and sustaining high value for our shareholders is our number one responsibility.

### FINANCIAL HIGHLIGHTS

For the Years Ended February 28 or 29					
(in millions, except per share data)	2006	2005	2004	2003	2002
INCOME STATEMENT REPORTED RESULTS					
Sales	\$ 5,706.9	\$ 5,139.9	\$ 4,469.3	\$3,583.1	\$ 3,420.2
Net sales	4,603.4	4,087.6	3,552.4	2,731.6	2,606.8
Operating income	666.1	567.9	487.4	405.0	339.9
Net income	325.3	276.5	220.4	203.3	136.4
Diluted earnings per share	1.36	1.19	1.03	1.10	0.78
INCOME STATEMENT COMPARABLE RESULTS					
Net sales	\$ 4,603.4	\$ 4,087.6	\$ 3,543.2	\$2,731.6	\$ 2,606.8
Operating income	760.0	626.7	558.9	409.7	369.8
Net income	379.8	314.1	266.5	192.2	156.9
Diluted earnings per share	1.59	1.35	1.25	1.04	0.89
CASH FLOW DATA					
	\$ 436.0	\$ 320.7	\$ 340.3	\$ 236.1	\$ 213.3
Net cash provided by operating activities		'			
Purchases of property, plant, and equipment	132.5	119.7	105.1	71.6	71.1
Free cash flow	303.5	201.0	235.2	164.5	142.2

Comparable financial results are provided because the Company believes this information provides investors better insight on underlying business trends and results in order to evaluate year-over-year financial performance. Management uses this information in evaluating the results of continuing operations of the Company and internal goal setting.

The comparable financial results reflect the exclusion of the following items: restructuring and related charges; acquisition-related integration costs; the flow through of adverse grape cost associated with the Robert Mondavi acquisition; facility rationalization costs; the flow through of inventory step-up associated with acquisitions and investments in equity method investees; due diligence costs associated with a potential acquisition offer; income tax adjustment in connection with the reversal of income tax accruals related to the completion of various income tax examinations; financing costs associated with the repayment of prior credit agreements and redemption of senior notes; net gain on sale of non-strategic assets; gain on transaction termination fee; relief from certain excise taxes, duty and other costs incurred in prior years; write-down of inventory in connection with the exit of a product line; imputed interest charge associated with the Hardy acquisition; gains on changes in fair value of derivative investments associated with financing acquisitions; and amortization expense, reflecting the impact of SFAS 142 (goodwill amortization) as if it had been adopted as of March 1, 2001.

The impact of excluding these items from the comparable financial results for: net sales totaled (\$9.2) for 2004; operating income totaled \$93.9 for 2006, \$58.8 for 2005, \$71.5 for 2004, \$4.7 for 2003 and \$29.9 for 2002; net income totaled \$54.5 for 2006, \$37.6 for 2005, \$46.1 for 2004, (\$11.1) for 2003 and \$20.5 for 2002; diluted earnings per share totaled \$0.23 for 2006, \$0.16 for 2005, \$0.22 for 2004, (\$0.06) for 2003 and \$0.11 for 2002. Net income and earnings per share amounts on a comparable basis are net of income taxes at a rate of 34.6% for 2006, 36% for 2005 and 2004, 39.3% for 2003 and 39% for 2002.

"Free cash flow" as used by the Company means net cash provided by operating activities prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") less purchases of property, plant and equipment. Free cash flow is considered a liquidity measure and provides useful information to investors about the amount of cash generated after such capital expenditures, which can then be used, after required debt service and dividend payments, for other general corporate purposes. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Free cash flow should be considered in addition to, not as a substitute for, or superior to, cash flow from operating activities prepared in accordance with GAAP.

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## SELECTED FINANCIAL DATA

	For the Years Ended									
	February 28, February 29, February 28,					F	ebruary 28,			
(in thousands, except per share data)		2006		2005		2004		2003		2002
Sales	\$ 5	5,706,925	\$ 5	,139,863	\$ 4	,469,270	\$ 3	3,583,082	\$ 3	3,420,213
Less-excise taxes	(1	,103,477)	(1	,052,225)		(916,841)		(851,470)		(813,455)
Net sales	4	1,603,448	4	,087,638	3	3,552,429	2	2,731,612	2	2,606,758
Cost of product sold	(3	3,278,859)	(2	,947,049)	(2	2,576,641)	( ]	1,970,897)	( ]	1,911,598)
Gross profit	1	,324,589	1	,140,589		975,788		760,715		695,160
Selling, general and administrative expenses (1)		(612,404)		(555,694)		(457,277)		(350,993)		(355,269)
Acquisition-related integration costs (2)		(16,788)		(9,421)		_		-		_
Restructuring and related charges (3)		(29,282)		(7,578)		(31,154)		(4,764)		
Operating income		666,115		567,896		487,357		404,958		339,891
Gain on change in fair value of derivative instruments		-		-		1,181		23,129		_
Equity in earnings of equity method investees		825		1,753		542		12,236		1,667
Interest expense, net		(189,682)		(137,675)		(144,683)		(105,387)		(114,189)
Income before income taxes		477,258		431,974		344,397		334,936		227,369
Provision for income taxes (1)		(151,996)		(155,510)		(123,983)		(131,630)		(90,948)
Net income		325,262		276,464		220,414		203,306		136,421
Dividends on preferred stock		(9,804)		(9,804)		(5,746)				
Income available to common stockholders	\$	315,458	\$	266,660	\$	214,668	\$	203,306	\$	136,421
Earnings per common share (4):										
Basic – Class A Common Stock <sup>(5)</sup>	\$	1.44	\$	1.25	\$	1.08	\$	1.15	\$	0.81
Basic – Class B Common Stock (5)	\$	1.31	\$	1.14	\$	0.98	\$	1.04	\$	0.73
Diluted	\$	1.36	\$	1.19	\$	1.03	\$	1.10	\$	0.78
Supplemental data restated for effect of SFAS No. 142:										
Adjusted operating income	\$	666,115	\$	567,896	\$	487,357	\$	404,958	\$	369,780
Adjusted net income	\$	325,262	\$	276,464	\$	220,414	\$	203,306	\$	155,367
Adjusted income available to common stockholders	\$	315,458	\$	266,660	\$	214,668	\$	203,306	\$	155,367
Adjusted earnings per common share:										
Basic – Class A Common Stock (5)	\$	1.44	\$	1.25	\$	1.08	\$	1.15	\$	0.92
Basic – Class B Common Stock (5)	\$	1.31	\$	1.14	\$	0.98	\$	1.04	\$	0.84
Diluted	\$	1.36	\$	1.19	\$	1.03	\$	1.10	\$	0.88
Total assets	\$ 7	7,400,554	\$ 7	,804,172	\$ 5	5,558,673	\$ 3	3,196,330	\$ 3	3,069,385
Long-term debt, including current maturities	\$ 2	2,729,846	\$3	,272,801	\$ 2	2,046,098	\$ :	1,262,895	\$ :	1,374,792

<sup>(1)</sup> Effective March 1, 2003, the Company completed its adoption of Statement of Financial Accounting Standards No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Accordingly, the adoption of the provisions rescinding Statement of Financial Accounting Standards No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," resulted in a reclassification of the extraordinary loss related to the extinguishment of debt recorded in the fourth quarter of fiscal 2002 (\$1.6 million, net of income taxes), by increasing selling, general and administrative expenses (\$2.6 million) and decreasing the provision for income taxes (\$1.0 million).

<sup>(2)</sup> For a detailed discussion of acquisition-related integration costs for the years ended February 28, 2006, and February 28, 2005, see Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report under the caption "Fiscal 2006 Compared to Fiscal 2005 – Acquisition-Related Integration Costs" and "Fiscal 2005 Compared to Fiscal 2004 – Acquisition-Related Integration Costs," respectively.

<sup>(3)</sup> For a detailed discussion of restructuring and related charges for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, see Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report under the captions "Fiscal 2006 Compared to Fiscal 2005 – Restructuring and Related Charges" and "Fiscal 2005 Compared to Fiscal 2004 – Restructuring and Related Charges," respectively.

<sup>(4)</sup> All per share data have been adjusted to give effect to the two-for-one splits of the Company's two classes of common stock, which were distributed in the form of stock dividends in May 2005.

<sup>(5)</sup> Effective June 1, 2004, the Company adopted EITF Issue No. 03-6 ("EITF No. 03-6"), "Participating Securities and the Two-Class Method under FASB Statement No. 128." EITF No. 03-6 clarifies what is meant by a "participating security," provides guidance on applying the two-class method for computing earnings per share, and required affected companies to retroactively restate earnings per share amounts for all periods presented. Under EITF No. 03-6, the Company's Class B Convertible Common Stock is considered a participating security requiring the use of the two-class method for the computation of earnings per common share – basic, rather than the if-converted method which was previously used. Accordingly, earnings per common share – basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented.

For the years ended February 28, 2006, and February 28, 2005, see Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report and the Consolidated Financial Statements and notes thereto.

Effective March 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives and are subject to review for impairment. Upon adoption of SFAS

No. 142, the Company determined that certain of its intangible assets met the criteria to be considered indefinite lived and, accordingly, ceased their amortization effective March 1, 2002. These intangible assets consisted principally of trademarks. The Company's trademarks relate to well established brands owned by the Company which were previously amortized over 40 years. Intangible assets determined to have a finite life, primarily distribution agreements, continue to be amortized over their estimated useful lives which were not modified as a result of adopting SFAS No. 142. The supplemental data section above presents operating income, income before extraordinary item, net income and earnings per share information for the comparative periods as if the nonamortization provisions of SFAS No. 142 had been applied as of March 1, 2001.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to market shares and positions are as of December 31.

#### **OVERVIEW**

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, imported beer and spirits categories. The Company has the largest wine business in the world and is the largest multi-category supplier of beverage alcohol in the United States ("U.S."); a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom ("U.K.").

The Company reports its operating results in three segments: Constellation Wines (branded wines, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments. The business segments reflect how the Company's operations are being managed, how operating performance within the Company is being evaluated by senior management and the structure of its internal financial reporting. In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and unusual items that affect comparability from its definition of operating income for segment purposes.

The Company's business strategy is to remain focused across the beverage alcohol industry by offering a broad range of products in each of the Company's three major categories: wine, imported beer and spirits. The Company intends to keep its portfolio positioned for superior top-line growth while maximizing the profitability of its brands. In addition, the Company seeks to increase its relative importance to key customers in major markets by increasing its share of their overall purchasing, which is increasingly important in a consolidating industry. The Company's strategy of breadth across categories and geographies is designed to deliver long-term profitable growth. This strategy allows the Company more investment choices, provides flexibility to address changing market conditions and creates stronger routes-to-market.

Marketing, sales and distribution of the Company's products, particularly the Constellation Wines segment's products, are managed on a geographic basis in order to fully leverage leading market positions within each geographic market. Market dynamics and consumer trends

vary significantly across the Company's three core geographic markets – North America (primarily the U.S.), Europe (primarily the U.K.) and Australasia (primarily Australia and New Zealand). Within the U.S. market, the Company offers a wide range of beverage alcohol products across the Constellation Wines segment and the Constellation Beers and Spirits segment. In Europe, the Company leverages its position as the largest wine supplier in the U.K. In addition, the Company leverages its U.K. wholesale business as a strategic route-to-market for its imported wine portfolio and as a key supplier of a full range of beverage alcohol products primarily to large national on-premise accounts. Within Australasia, where consumer trends favor domestic wine products, the Company leverages its position as one of the largest wine producers in Australia.

The Company remains committed to its long-term financial model of growing sales (both through acquisitions and organically), expanding margins and increasing cash flow to achieve superior earnings per share growth and improve return on invested capital.

The environment for the Company's products is competitive in each of the Company's key geographic markets, due, in part, to industry and retail consolidation. Specifically, in the U.K. and Australia, the market for branded wine continues to be challenging; furthermore, retailer consolidation is contributing to increased competition and promotional activities among suppliers. Competition in the U.S. beers and spirits markets is normally intense, with domestic and imported beer producers increasing brand spending in an effort to gain market share.

Additionally, the supply of certain raw materials, particularly grapes, as well as consumer demand, can affect the overall competitive environment. Two years of lighter than expected California grape harvests in calendar 2004 and 2003, combined with a reduction in wine grape acreage in California, brought the U.S. grape supply more into balance with demand during calendar 2005. This led to an overall firming of the pricing of wine grape varietals from California. The calendar 2005 California grape harvest was substantially larger than the prior year; however, following two years of lighter harvests, the Company does not currently expect the balance between supply and demand to change significantly. Two years of record Australian grape harvests have contributed to an oversupply of Australian grapes, particularly for certain red varietals. This has led to an overall reduction in grape costs for these varietals, which may affect markets for Australian wines around the world.

For the year ended February 28, 2006 ("Fiscal 2006"), the Company's results of operations benefited from the inclusion of an additional ten months of operations of Robert Mondavi (as defined below). The Company's net sales increased 13% over the year ended February 28, 2005 ("Fiscal 2005"), primarily from increases in branded wine net sales and imported beer net sales. Operating income increased 17% over the comparable prior year period primarily due to the favorable sales mix shift to higher margin wine brands acquired in the Robert Mondavi acquisition partially offset by increased acquisition-related integration

costs, restructuring and related charges and unusual costs (see below under "Fiscal 2006 Compared to Fiscal 2005 – Operating Income" discussion). Net income increased 18% over the comparable prior year period as a result of the above factors combined with a lower effective income tax rate partially offset by increased interest expense.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for Fiscal 2006 compared to Fiscal 2005, and Fiscal 2005 compared to the year ended February 29, 2004 ("Fiscal 2004"), and (ii) financial liquidity and capital resources for Fiscal 2006. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and net unusual costs expected to affect consolidated results of operations of the Company for the year ending February 28, 2007 ("Fiscal 2007"). This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

### RECENT DEVELOPMENTS

Pending Acquisition of Vincor On April 2, 2006, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Vincor International Inc. ("Vincor") pursuant to which, subject to satisfaction of certain conditions, the Company will acquire all of the issued and outstanding common shares of Vincor. Vincor is the world's eighth largest producer and distributor of wine and related products by revenue based in Mississauga, Ontario, Canada, and is Canada's largest producer and marketer of wine. Vincor is also one of the largest wine importers, marketers and distributors in the U.K. In connection with the production of its products, Vincor owns, operates and has interests in certain wineries and controls certain vineyards. Vincor produces, markets and sells premium, super-premium and fine wines from Canada, California, Washington State, Western Australia and New Zealand. Some of Vincor's well-known premium brands include Inniskillin, Jackson-Triggs, Sumac Ridge, Hawthorne Mountain, R.H. Phillips, Toasted Head, Hogue, Kim Crawford and Kumala.

The pending acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic markets to capitalize on the overall growth in the wine industry. In addition to complementing the Company's current operations in the U.S., U.K., Australia and New Zealand, the acquisition of Vincor would increase the Company's global presence by adding Canada as another core geographic market. In addition, the acquisition of Vincor would make the Company the largest wine company in Canada and would strengthen the Company's position as the largest wine company in the world and the largest premium wine company in the U.S.

The Arrangement Agreement provides for Vincor shareholders to receive in cash Cdn\$36.50 per common share. Total consideration to be paid in cash to the Vincor shareholders is expected to be approximately Cdn\$1.2 billion. In addition, the Company expects to pay certain obligations of Vincor, including indebtedness outstanding under its bank facility and secured notes. In April 2006,

the Company entered into a foreign currency forward contract in connection with the pending acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. The foreign currency forward contract is for the purchase of Cdn\$1.4 billion at a rate of Cdn\$1.149 to U.S.\$1.00. The Company will be required to mark the foreign currency forward contract to market with resulting gains or losses to be recorded in future results of operations. The consideration to be paid to the shareholders and the amount needed to repay outstanding indebtedness of Vincor is expected to be financed with borrowings under an amended and restated senior credit facility. The Company currently expects to complete the acquisition of Vincor in early June 2006.

If the pending acquisition is completed, the results of operations of the Vincor business would be reported in the Constellation Wines segment and would be included in the consolidated results of operations of the Company from the date of acquisition. The acquisition of Vincor would be considered significant and the Company would expect it to have a material impact on the Company's future results of operations, financial position and cash flows.

# ACQUISITIONS IN FISCAL 2005 AND FISCAL 2004 AND EQUITY METHOD INVESTMENT

Acquisition of Robert Mondavi On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation ("Robert Mondavi"), a leading premium wine producer based in Napa, California. Through this transaction, the Company acquired various additional winery and vineyard interests, and, additionally produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. In the United States, Woodbridge is the leading domestic premium wine brand and Robert Mondavi Private Selection is the leading superpremium wine brand. As a result of the Robert Mondavi acquisition, the Company acquired an ownership interest in Opus One, a joint venture owned equally by Robert Mondavi and Baron Philippe de Rothschild, S.A. During September 2005, the Company's president and Baroness Philippine de Rothschild announced an agreement to maintain equal ownership of Opus One. Opus One produces fine wines at its Napa Valley winery.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of sales from these brands are generated in the United States. The Company is leveraging the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company also intends to further expand distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure. Distribution of the Robert Mondavi Woodbridge brand in the U.K. market is underway and the brand has been introduced into most major U.K. retailers.

The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in certain of its core markets. The Robert Mondavi acquisition provides the Company with a greater presence in the growing premium, super-premium and fine wine sectors within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom and other "new world" wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was \$1,030.7 million. Additionally, the Company incurred direct acquisition costs of \$12.0 million. The purchase price was financed with borrowings under the Company's 2004 Credit Agreement (as defined below). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Robert Mondavi business, including the factors described above, as well as an estimated benefit from operating cost synergies.

The results of operations of the Robert Mondavi business have been reported in the Company's Constellation Wines segment since December 22, 2004. Accordingly, the Company's results of operations for Fiscal 2006 include the results of operations of the Robert Mondavi business for the entire period, whereas the results of operations for Fiscal 2005 only include the results of operations of the Robert Mondavi business from December 22, 2004, to the end of Fiscal 2005.

Following the Robert Mondavi acquisition, the Company sold certain of the acquired vineyard properties and related assets, investments accounted for under the equity method, and winery properties and related assets. The Company realized net proceeds of \$170.8 million from the sale of certain of these assets during Fiscal 2006. Sales of these assets are complete, and, since the date of acquisition through February 28, 2006, net proceeds from these asset sales total \$180.7 million. No gain or loss has been recognized upon the sale of these assets.

Acquisition of Hardy On March 27, 2003, the Company acquired control of BRL Hardy Limited, now known as Hardy Wine Company Limited ("Hardy"), and on April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding capital stock. As a result of the acquisition of Hardy, the Company also acquired the remaining 50% ownership of Pacific Wine Partners LLC ("PWP"), the joint venture the Company established with Hardy in July 2001. The acquisition of Hardy along with the remaining interest in PWP is referred to together as the "Hardy Acquisition." Through this acquisition, the Company acquired one of Australia's largest wine producers with interests in wineries and vineyards in most of Australia's major wine regions as well as New Zealand and the United States. Hardy has a comprehensive portfolio of wine products across all price points with a strong focus on premium wine production. Hardy's wines are distributed worldwide through a network of marketing and sales operations, with the majority of sales

generated in Australia, the United Kingdom and the United States. In October 2005, PWP was merged into another subsidiary of the Company.

Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was \$1,137.4 million. Additionally, the Company recorded direct acquisition costs of \$17.2 million. The acquisition date for accounting purposes is March 27, 2003. The Company has recorded a \$1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is included as interest expense in the Consolidated Statement of Income for Fiscal 2004. The cash portion of the purchase price paid to the Hardy shareholders and optionholders (\$1,060.2 million) was financed with \$660.2 million of borrowings under the Company's then existing credit agreement and \$400.0 million of borrowings under the Company's then existing bridge loan agreement. Additionally, the Company issued 6,577,826 shares of the Company's Class A Common Stock, which were valued at \$77.2 million based on the simple average of the closing market price of the Company's Class A Common Stock beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The purchase price was based primarily on a discounted cash flow analysis that contemplated, among other things, the value of a broader geographic distribution in strategic international markets and a presence in the important Australian winemaking regions. The Company and Hardy have complementary businesses that share a common growth orientation and operating philosophy. The Hardy Acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. The purchase price and resulting goodwill were primarily based on the growth opportunities of the brand portfolio of Hardy. In particular, the Company believes there are growth opportunities for Australian wines in the United Kingdom, United States and other wine markets. This acquisition supports the Company's strategy of driving long-term growth and positions the Company to capitalize on the growth opportunities in "new world" wine markets.

The results of operations of Hardy and PWP have been reported in the Company's Constellation Wines segment since March 27, 2003. Accordingly, the Company's results of operations for Fiscal 2005 include the results of operations of Hardy and PWP for the entire period, whereas the results of operations for Fiscal 2004 only include the results of operations of Hardy and PWP from March 27, 2003, to the end of Fiscal 2004.

Investment in Ruffino On December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. ("Ruffino"), the well-known Italian fine wine company, for \$89.6 million, including direct acquisition costs of \$7.5 million. As of February 1, 2005, the Constellation Wines segment began distributing Ruffino's products in the United States. The Company accounts for the investment under the equity method; accordingly, the results of operations of Ruffino from December 3, 2004, are included in the equity in

earnings of equity method investees line in the Company's Consolidated Statements of Income.

# RESULTS OF OPERATIONS FISCAL 2006 COMPARED TO FISCAL 2005

**Net Sales** The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for Fiscal 2006 and Fiscal 2005.

Fiscal 2006 Compared to Fiscal 2005 Net Sales

	1101 00100							
	2006	2005	% Increase/ (Decrease)					
Constellation Wines:								
Branded wine	\$2,263.4	\$1,830.8	24 %					
Wholesale and other	972.0	1,020.6	(5)%					
Constellation Wines net sales	\$3,235.4	\$2,851.4	13 %					
Constellation Beers and Spirits:								
Imported beers	\$1,043.5	\$ 922.9	13 %					
Spirits	324.5	313.3	4 %					
Constellation Beers and Spirits net sales	\$1,368.0	\$1,236.2	11 %					
Corporate Operations and Other	\$ -	\$ -	N/A					
Consolidated Net Sales	\$4,603.4	\$4,087.6	13 %					

Net sales for Fiscal 2006 increased to \$4,603.4 million from \$4,087.6 million for Fiscal 2005, an increase of \$515.8 million, or 13%. This increase resulted primarily from an increase in branded wine net sales of \$440.1 million (on a constant currency basis) and imported beer net sales of \$120.5 million, partially offset by an unfavorable foreign currency impact of \$35.5 million.

**Constellation Wines** Net sales for Constellation Wines increased to \$3,235.4 million for Fiscal 2006 from \$2,851.4 million in Fiscal 2005, an increase of \$384.0 million, or 13%. Branded wine net sales increased \$432.6 million primarily from \$337.5 million of net sales of the acquired Robert Mondavi brands and \$43.6 million of net sales of Ruffino brands, which the Company began distributing in the U.S. on February 1, 2005, as well as a \$51.5 million increase in branded wine net sales (excluding sales of Robert Mondavi and Ruffino brands). The \$51.5 million increase is due primarily to volume growth in the Company's branded wine net sales in the U.S. as well as new product introductions. Wholesale and other net sales decreased \$48.5 million (\$20.5 million on a constant currency basis) as growth in the U.K. wholesale business was more than offset by a decrease in other net sales. The decrease in other net sales is primarily due to the Company's Fiscal 2004 decision to exit the commodity concentrate business during Fiscal 2005.

Constellation Beers and Spirits Net sales for Constellation Beers and Spirits increased to \$1,368.0 million for Fiscal 2006 from \$1,236.2 million for Fiscal 2005, an increase of \$131.8 million, or 11%. This increase resulted from increases in imported beers net sales of \$120.5 million and spirits net

sales of \$11.3 million. The growth in imported beers net sales is primarily due to volume growth in the Company's Mexican beer portfolio. The growth in spirits net sales is attributable primarily to an increase in the Company's contract production net sales.

**Gross Profit** The Company's gross profit increased to \$1,324.6 million for Fiscal 2006 from \$1,140.6 million for Fiscal 2005, an increase of \$184.0 million, or 16%. The Constellation Wines segment's gross profit increased \$191.0 million primarily due to the additional gross profit of \$171.7 million from the Robert Mondavi acquisition and additional gross profit from the volume growth in branded wine net sales in the U.S., partially offset by the reduced gross profit from the decrease in other net sales. The Constellation Beers and Spirits segment's gross profit increased \$21.0 million primarily due to volume growth in the Company's Mexican beer portfolio partially offset by higher Mexican beer product costs and transportation costs. However, in connection with certain supply arrangements, the higher Mexican beer product costs were offset by a corresponding decrease in advertising expenses resulting in no impact to operating income. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were higher by \$28.1 million in Fiscal 2006 versus Fiscal 2005. This increase resulted primarily from accelerated depreciation costs associated with the Fiscal 2006 Plan (as defined below) of \$13.4 million and increased flow through of adverse grape cost associated with the Robert Mondavi acquisition of \$13.2 million. Gross profit as a percent of net sales increased to 28.8% for Fiscal 2006 from 27.9% for Fiscal 2005 primarily due to sales of higher-margin wine brands acquired in the Robert Mondavi acquisition, partially offset by the higher unusual items and higher Mexican beer product costs and transportation costs.

The Company expects transportation costs to continue to impact the Company's gross margins. However, the Company is addressing this matter by continuing its evaluation and implementation of price increases on a market by market basis.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased to \$612.4 million for Fiscal 2006 from \$555.7 million for Fiscal 2005, an increase of \$56.7 million, or 10%. The Constellation Wines segment's selling, general and administrative expenses increased \$67.2 million primarily due to increased selling expenses, general and administrative, and advertising expenses to support the growth in the segment's business, primarily due to the costs related to the brands acquired in the Robert Mondavi acquisition. In addition, general and administrative expenses were negatively impacted as a result of an adjustment associated with the segment's U.K. defined benefit pension plan related to a reduction in the period over which unrecognized actuarial losses are amortized. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased \$4.6 million as increased selling and general and administrative expenses

were partially offset by lower advertising expenses. The Corporate Operations and Other segment's selling, general and administrative expenses increased \$7.0 million primarily due to costs associated with professional service fees incurred in connection with the Company's tender offer for Vincor that expired in December 2005 and increased general and administrative expenses to support the Company's growth. Lastly, there was a decrease of \$22.1 million of unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. Fiscal 2006 included costs associated primarily with professional service fees incurred for due diligence in connection with the Company's evaluation of a potential offer for Allied Domecq of \$3.4 million. Fiscal 2005 costs included \$31.7 million of financing costs recorded in Fiscal 2005 related to (i) the Company's redemption of its \$200.0 million aggregate principal amount of 8½% Senior Subordinated Notes due March 2009 (the "Senior Subordinated Notes") and (ii) the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition, partially offset by net gains of \$6.1 million recorded in Fiscal 2005 on the sales of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. Selling, general and administrative expenses as a percent of net sales decreased to 13.3% for Fiscal 2006 as compared to 13.6% for Fiscal 2005 primarily due to the decrease in unusual costs.

Acquisition-Related Integration Costs The Company recorded \$16.8 million of acquisition-related integration costs for Fiscal 2006 in connection with the Company's decision to restructure and integrate the operations of Robert Mondavi (the "Robert Mondavi Plan"). Acquisition-related integration costs included \$5.3 million of employee-related costs and \$11.5 million of facilities and other one-time costs. The Company recorded \$9.4 million of acquisition-related integration costs for Fiscal 2005 in connection with the Robert Mondavi Plan. The Company does not expect acquisition-related integration costs in connection with the Robert Mondavi Plan to be significant for Fiscal 2007.

Restructuring and Related Charges The Company recorded \$29.3 million of restructuring and related charges for Fiscal 2006 associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations as previously announced in Fiscal 2004, a component of the Fiscal 2004 Plan (as defined below under the caption "Fiscal 2005 Compared to Fiscal 2004 – Restructuring and Related Charges"), (ii) the Robert Mondavi Plan, and (iii) costs associated with the worldwide wine reorganization announced in February 2006 (including certain personnel reductions in the U.K. during the third quarter of fiscal 2006) and the Company's program to consolidate certain west coast production processes in the U.S. (collectively, the "Fiscal 2006 Plan"). Restructuring and related charges recorded in connection with the Fiscal 2004 Plan included \$0.7 million of employee termination benefit costs and \$1.3 million of facility consolidation and relocation

costs. Restructuring and related charges recorded in connection with the Robert Mondavi Plan included \$1.6 million of employee termination benefit costs, \$0.7 million of contract termination costs and \$0.5 million of facility consolidation and relocation costs. Restructuring and related charges recorded in connection with the Fiscal 2006 Plan included \$24.3 million of employee termination benefit costs and \$0.2 million of facility consolidation and relocation costs. In addition, in connection with the Fiscal 2006 Plan, the Company recorded (i) \$13.4 million of accelerated depreciation charges in connection with the Company's investment in new assets and reconfiguration of certain existing assets under the plan and (ii) \$0.1 million of other related costs which were recorded in the cost of product sold line and the selling, general and administrative expenses line, respectively, within the Consolidated Statements of Income. The Company recorded \$7.6 million of restructuring and related charges for Fiscal 2005 associated with the Fiscal 2004 Plan and the Robert Mondavi Plan.

For Fiscal 2007, the Company expects to incur total restructuring and related charges of \$24.8 million associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan. In addition, the Company expects to incur total accelerated depreciation charges of \$7.0 million associated with the Fiscal 2006 Plan. Lastly, the Company expects to incur total other related costs of \$8.3 million associated with the Fiscal 2006 Plan.

**Operating Income** The following table sets forth the operating income (loss) (in millions of dollars) by operating segment of the Company for Fiscal 2006 and Fiscal 2005.

Fiscal 2006 Compared to Fiscal 2005 Operating Income (Loss)

	2006	2005	% Increase
Constellation Wines	\$ 530.4	\$ 406.6	30%
Constellation Beers and Spirits	292.6	276.1	6%
Corporate Operations and Other	(63.0)	(56.0)	13%
Total Reportable Segments	760.0	626.7	21%
Acquisition-Related Integration Costs,			
Restructuring and Related Charges and			
Net Unusual Costs	(93.9)	(58.8)	60%
Consolidated Operating			
Income	\$ 666.1	\$ 567.9	. 17%

As a result of the factors discussed above, consolidated operating income increased to \$666.1 million for Fiscal 2006 from \$567.9 million for Fiscal 2005, an increase of \$98.2 million, or 17%. Acquisition-related integration costs, restructuring and related charges and unusual costs of \$93.9 million for Fiscal 2006 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent restructuring and related charges of \$29.3 million associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan; the flow through of adverse grape cost and

acquisition-related integration costs associated with the Robert Mondavi acquisition of \$23.0 million and \$16.8 million, respectively; accelerated depreciation costs of \$13.4 million associated with the Fiscal 2006 Plan; the flow through of inventory step-up associated with the Robert Mondavi acquisition of \$7.9 million; costs associated with professional service fees incurred for due diligence in connection with the Company's evaluation of a potential offer for Allied Domecq of \$3.4 million; and other costs associated with the Fiscal 2006 Plan of \$0.1 million. Acquisition-related integration costs, restructuring and related charges and unusual costs of \$58.8 million for Fiscal 2005 represent financing costs associated with the redemption of the Company's Senior Subordinated Notes and the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition of \$31.7 million; adverse grape cost and acquisition-related integration costs associated with the Company's acquisition of Robert Mondavi of \$9.8 million and \$9.4 million, respectively; restructuring and related charges of \$7.6 million in the wine segment associated with the Company's realignment of its business operations and the Robert Mondavi acquisition; and the flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of \$6.4 million; partially offset by a net gain on the sale of non-strategic assets of \$3.1 million and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of \$3.0 million.

Equity in Earnings of Equity Method Investees The Company's equity in earnings of equity method investees decreased to \$0.8 million in Fiscal 2006 from \$1.8 million in Fiscal 2005, a decrease of \$0.9 million due primarily to a \$5.0 million loss from the Company's investment in Ruffino, partially offset by an increase in earnings of \$4.1 million associated primarily with the Company's investment in Opus One as a result of the Robert Mondavi acquisition. The \$5.0 million loss from the Company's investment in Ruffino is due primarily to the write-down of certain preacquisition Ruffino inventories.

Interest Expense, Net Interest expense, net of interest income of \$4.2 million and \$2.3 million for Fiscal 2006 and Fiscal 2005, respectively, increased to \$189.7 million for Fiscal 2006 from \$137.7 million for Fiscal 2005, an increase of \$52.0 million, or 38%. The increase resulted primarily from higher average borrowings in Fiscal 2006 primarily due to the Robert Mondavi acquisition and the investment in Ruffino in the fourth quarter of fiscal 2005.

Provision for Income Taxes The Company's effective tax rate was 31.8% for Fiscal 2006 and 36.0% for Fiscal 2005, a decrease of 4.2%. This decrease was primarily due to a non-cash reduction in the Company's provision for income taxes of \$16.2 million, or 3.4%, as a result of adjustments to income tax accruals in connection with the completion of various income tax examinations plus the income tax benefit the Company recorded under the repatriation provisions of the "American Jobs Creation Act of 2004" in connection with distributions of certain foreign earnings. The Company

expects the effective tax rate for Fiscal 2007 to be approximately 36.5%, which is slightly higher than historical levels, as an increasing percentage of the Company's earnings are coming from higher tax jurisdictions.

**Net Income** As a result of the above factors, net income increased to \$325.3 million for Fiscal 2006 from \$276.5 million for Fiscal 2005, an increase of \$48.8 million, or 18%.

### FISCAL 2005 COMPARED TO FISCAL 2004

**Net Sales** The following table sets forth the net sales (in millions of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

Fiscal 2005 Compared to Fiscal 2004

	Net Sales							
	2005	2004	% Increase/ (Decrease)					
Constellation Wines:								
Branded wine	\$1,830.8	\$1,549.7	18 %					
Wholesale and other	1,020.6	846.3	21 %					
Constellation Wines net sales	\$2,851.4 \$2,396.0		19 %					
Constellation Beers and Spirits:								
Imported beers	\$ 922.9	\$ 862.6	7 %					
Spirits	313.3	284.6	10 %					
Constellation Beers and Spirits net sales	\$1,236.2	\$1,147.2	8 %					
Corporate Operations and Other	\$ -	\$ -	N/A					
Unusual gain	\$ -	\$ 9.2	(100.0)%					
Consolidated Net Sales	\$4,087.6	\$3,552.4	15 %					

Net sales for Fiscal 2005 increased to \$4,087.6 million from \$3,552.4 million for Fiscal 2004, an increase of \$535.2 million, or 15%. This increase resulted primarily from an increase in branded wine net sales of \$217.8 million (on a constant currency basis), including \$84.2 million of net sales of the acquired Robert Mondavi brands and \$45.7 million of net sales of the acquired Hardy brands; an increase in U.K. wholesale net sales of \$84.1 million (on a constant currency basis); and an increase in imported beer net sales of \$60.3 million. In addition, net sales benefited from a favorable foreign currency impact of \$155.5 million.

Constellation Wines Net sales for Constellation Wines increased to \$2,851.4 million for Fiscal 2005 from \$2,396.0 million in Fiscal 2004, an increase of \$455.4 million, or 19%. Branded wine net sales increased \$281.1 million. This increase resulted from increased branded wine net sales in the U.S., Europe and Australasia of \$217.8 million (on a constant currency basis), including \$84.2 million of net sales of the acquired Robert Mondavi brands and an additional one month of net sales of \$45.7 million of the acquired Hardy brands, completed in March 2003, and a favorable foreign currency impact of \$63.3 million. The increases in branded wine net sales in the U.S., Europe and Australasia are primarily due to volume growth as the Company continues to benefit from increased distribution and greater consumer demand for premium wines.

Wholesale and other net sales increased \$174.3 million primarily due to growth in the U.K. wholesale business of \$84.1 million (on a constant currency basis) and a favorable foreign currency impact of \$92.2 million. The net sales increase in the U.K. wholesale business on a constant currency basis is primarily due to the addition of new national accounts in the first quarter of fiscal 2005 and increased sales in existing accounts during Fiscal 2005.

Constellation Beers and Spirits Net sales for Constellation Beers and Spirits increased to \$1,236.2 million for Fiscal 2005 from \$1,147.2 million for Fiscal 2004, an increase of \$89.0 million, or 8%. This increase resulted from a \$60.3 million increase in imported beer net sales and an increase in spirits net sales of \$28.7 million. The growth in imported beer sales is primarily due to a price increase on the Company's Mexican beer portfolio, which was introduced in January 2004. The growth in spirits net sales is attributable to increases in both the Company's contract production net sales as well as volume growth in branded net sales.

**Gross Profit** The Company's gross profit increased to \$1,140.6 million for Fiscal 2005 from \$975.8 million for Fiscal 2004, an increase of \$164.8 million, or 17%. The Constellation Wines segment's gross profit increased \$122.6 million primarily due to the additional two months of sales of products acquired in the Robert Mondavi acquisition, volume growth in the U.S. branded wine net sales and a favorable foreign currency impact. The Constellation Beers and Spirits segment's gross profit increased \$30.6 million primarily due to the increase in imported beer net sales and volume growth in the segment's spirits portfolio. In addition, unusual items, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were lower by \$11.6 million in Fiscal 2005 versus Fiscal 2004. This decrease resulted from a \$16.8 million write-down of commodity concentrate inventory in Fiscal 2004 in connection with the Company's decision to exit the commodity concentrate product line in the U.S. (see additional discussion under "Restructuring and Related Charges" at right) and reduced flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of \$16.0 million, partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of \$11.5 million, which was recognized in the fourth quarter of fiscal 2004, and the flow through of adverse grape cost associated with the Robert Mondavi acquisition of \$9.8 million in Fiscal 2005. Gross profit as a percent of net sales increased to 27.9% for Fiscal 2005 from 27.5% for Fiscal 2004 primarily due to the lower unusual items.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased to \$555.7 million for Fiscal 2005 from \$457.3 million for Fiscal 2004, an increase of \$98.4 million, or 22%. The Constellation Wines segment's selling, general and administrative expenses increased \$64.7 million primarily due to increased selling and advertising expenses as the Company continues to invest behind specific wine brands to drive broader distribution and additional selling, general and administrative expenses

from the addition of the Robert Mondavi business. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased \$7.1 million primarily due to increased imported beer and spirits selling expenses to support the growth across this segment's businesses. The Corporate Operations and Other segment's selling, general and administrative expenses increased \$13.7 million primarily due to increased general and administrative expenses to support the Company's growth and costs associated with higher professional services fees, including costs incurred in connection with compliance activities associated with the Sarbanes-Oxley Act of 2002. Lastly, there was an increase of \$12.9 million of unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. This increase includes \$31.7 million of financing costs recorded in Fiscal 2005 related to (i) the Company's redemption of its Senior Subordinated Notes and (ii) the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition as compared to \$11.6 million of financing costs recorded in Fiscal 2004 in connection with the Hardy Acquisition. Partially offsetting the \$20.1 million increase in financing costs were net gains recorded in Fiscal 2005 on the sales of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. Selling, general and administrative expenses as a percent of net sales increased to 13.6% for Fiscal 2005 as compared to 12.9% for Fiscal 2004 primarily due to the growth in the Corporate Operations and Other segment's general and administrative expenses and the increased unusual costs described above.

Acquisition-Related Integration Costs The Company recorded \$9.4 million of acquisition-related integration costs for Fiscal 2005 associated with the Robert Mondavi Plan. Acquisition-related integration costs included \$4.9 million of employee related costs and \$4.5 million of facilities and other one-time costs.

Restructuring and Related Charges The Company recorded \$7.6 million of restructuring and related charges for Fiscal 2005 associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations as previously announced in Fiscal 2004, (ii) the Company's decision in Fiscal 2004 to exit the commodity concentrate product line in the U.S. (collectively, the "Fiscal 2004 Plan"), and (iii) the Robert Mondavi Plan. Restructuring and related charges included \$3.8 million of employee termination benefit costs (net of reversal of prior accruals of \$0.2 million), \$1.5 million of contract termination costs, \$1.0 million of facility consolidation and relocation costs, and other related charges of \$1.3 million. The Company recorded \$31.1 million of restructuring and related charges for Fiscal 2004 associated with the Fiscal 2004 Plan. In total, the Company recorded \$47.9 million of costs for Fiscal 2004 allocated between cost of product sold and restructuring and related charges associated with the Fiscal 2004 Plan.

**Operating Income** The following table sets forth the operating income (loss) (in millions of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

Fiscal 2005 Compared to Fiscal 2004 Operating Income (Loss)

	- 11 -		
	2005	2004	% Increase/ (Decrease)
Constellation Wines	\$406.6	\$348.1	17 %
Constellation Beers and Spirits	276.1	252.5	9 %
Corporate Operations and Other	(56.0)	(41.7)	34 %
Total Reportable Segments	626.7	558.9	12 %
Acquisition-related Integration Costs, Restructuring and Related Charges			
and Net Unusual Costs	(58.8)	(71.5)	(18)%
Consolidated Operating Income	\$567.9	\$487.4	17 %

As a result of the factors discussed above, consolidated operating income increased to \$567.9 million for Fiscal 2005 from \$487.4 million for Fiscal 2004, an increase of \$80.5 million, or 17%. Acquisition-related integration costs, restructuring and related charges and net unusual costs of \$58.8 million for Fiscal 2005 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent financing costs associated with the redemption of the Company's Senior Subordinated Notes and the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition of \$31.7 million, adverse grape cost and acquisition-related integration costs associated with the Company's acquisition of Robert Mondavi of \$9.8 million and \$9.4 million, respectively, restructuring and related charges of \$7.6 million in the wine segment associated with the Company's realignment of its business operations and the Robert Mondavi acquisition, and the flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of \$6.4 million, partially offset by a net gain on the sale of non-strategic assets of \$3.1 million and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of \$3.0 million. Acquisition-related integration costs, restructuring and related charges and net unusual costs of \$71.6 million for Fiscal 2004 represent the flow through of inventory step-up and the amortization of deferred financing costs associated with the Hardy Acquisition of \$22.5 million and \$11.6 million, respectively, and costs associated with exiting the commodity concentrate product line and the Company's realignment of its business operations in the wine segment, including the write-down of commodity concentrate inventory of \$16.8 million and restructuring and related charges of \$31.1 million, partially offset by the relief from certain excise taxes, duty and other costs incurred in prior years of \$10.4 million.

**Interest Expense, Net** Interest expense, net of interest income of \$2.3 million and \$3.6 million for Fiscal 2005 and

Fiscal 2004, respectively, decreased to \$137.7 million for Fiscal 2005 from \$144.7 million for Fiscal 2004, a decrease of \$7.0 million, or (5%). The decrease resulted from lower average borrowing rates in Fiscal 2005 as well as lower average borrowings. The reduction in average borrowing rates was attributed in part to the replacement of \$200.0 million of higher fixed rate subordinated note debt with lower variable rate revolver debt. The reduction in average borrowings resulted from the use of proceeds from the Company's equity offerings in July 2003 to pay down debt incurred to partially finance the Hardy Acquisition combined with on-going principal payments on long-term debt, partially offset by additional borrowings in the fourth quarter of fiscal 2005 to finance the Robert Mondavi acquisition.

**Provision for Income Taxes** The Company's effective tax rate remained the same at 36.0% for Fiscal 2005 and Fiscal 2004.

**Net Income** As a result of the above factors, net income increased to \$276.5 million for Fiscal 2005 from \$220.4 million for Fiscal 2004, an increase of \$56.1 million, or 25.4%.

# FINANCIAL LIQUIDITY AND CAPITAL RESOURCES GENERAL

The Company's principal use of cash in its operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States, the annual grape crush normally begins in August and runs through October. In Australia, the annual grape crush normally begins in February and runs through May. The Company generally begins taking delivery of grapes at the beginning of the crush season with payments for such grapes beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements. The Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, preferred stock dividend payment requirements, and anticipated capital expenditure requirements for both its short-term and long-term capital needs. In addition, the Company intends to utilize cash provided by operating activities and financing activities to repurchase shares under the Company's share repurchase program (see facing page) beginning in Fiscal 2007.

### FISCAL 2006 CASH FLOWS

**Operating Activities** Net cash provided by operating activities for Fiscal 2006 was \$436.0 million, which resulted from \$325.3 million of net income, plus \$167.2 million of net

non-cash items charged to the Consolidated Statements of Income and \$48.8 million of cash proceeds credited to accumulated other comprehensive income ("AOCI") within the Consolidated Balance Sheet, less \$105.2 million representing the net change in the Company's operating assets and liabilities.

The net non-cash items consisted primarily of depreciation of property, plant and equipment and deferred tax provision. The cash proceeds credited to AOCI consisted of \$30.3 million in proceeds from the unwinding of certain interest rate swaps (see discussion below under Senior Credit Facilities) and \$18.5 million in proceeds from the early termination of certain foreign currency derivative instruments related to the Company's change in its structure of certain of its cash flow hedges of forecasted foreign currency denominated transactions. As the forecasted transactions are still probable, this amount was recorded to AOCI and will be reclassified from AOCI into earnings in the same periods in which the original hedged items are recorded in the Consolidated Statements of Income. The net change in operating assets and liabilities resulted primarily from an increase in inventories and decreases in accrued advertising and promotion and restructuring accruals, partially offset by a decrease in accounts receivable.

Investing Activities Net cash used in investing activities for Fiscal 2006 was \$15.6 million, which resulted primarily from \$132.5 million of capital expenditures and net cash paid of \$45.9 million for purchases of businesses, partially offset by \$173.5 million of net proceeds from sales of assets, equity method investment, and businesses, primarily attributable to sales of non-strategic Robert Mondavi assets.

**Financing Activities** Net cash used in financing activities for Fiscal 2006 was \$426.2 million resulting primarily from principal payments of long-term debt of \$527.6 million partially offset by net proceeds of \$63.8 million from notes payable and \$31.5 million of proceeds from employee stock option exercises.

## FISCAL 2005 CASH FLOWS

Operating Activities Net cash provided by operating activities for Fiscal 2005 was \$320.7 million, which resulted from \$276.5 million of net income, plus \$176.0 million of net non-cash items charged to the Consolidated Statements of Income, less \$131.7 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment, deferred tax provision and the non-cash portion of loss on extinguishment of debt. The net change in operating assets and liabilities resulted primarily from increases in accounts receivable and inventories. The increases in accounts receivable and inventories are primarily a result of the Company's growth in Fiscal 2005.

**Investing Activities** Net cash used in investing activities for Fiscal 2005 was \$1,222.9 million, which resulted primarily from net cash paid of \$1,052.5 million for purchases of businesses and \$119.7 million of capital expenditures.

**Financing Activities** Net cash provided by financing activities for Fiscal 2005 was \$884.2 million resulting primarily from proceeds from issuance of long-term debt of \$2,400.0 million, partially offset by principal payments of long-term debt of \$1,488.7 million.

#### SHARE REPURCHASE PROGRAM

During June 1998, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of its Class A Common Stock and Class B Common Stock. Under this program, the Company had purchased a total of 8,150,688 shares of Class A Common Stock at an aggregate cost of \$44.9 million, or at an average cost of \$5.51 per share. Of this total amount, no shares were repurchased during Fiscal 2006, Fiscal 2005 or Fiscal 2004. During February 2006, the Company's Board of Directors replenished the June 1998 authorization to repurchase up to \$100.0 million of the Company's Class A Common Stock and Class B Common Stock. The repurchase of shares of common stock will be accomplished, from time to time, in management's discretion and depending upon market conditions, through open market or privately negotiated transactions. The Company may finance such repurchases through cash generated from operations or through the senior credit facility. The repurchased shares will become treasury shares. As of May 1, 2006, no additional shares were repurchased under the amended program.

#### **DEBT**

Total debt outstanding as of February 28, 2006, amounted to \$2,809.7 million, a decrease of \$479.5 million from February 28, 2005. The ratio of total debt to total capitalization decreased to 48.6% as of February 28, 2006, from 54.2% as of February 28, 2005, primarily due to the paydown of term debt resulting primarily from net cash provided by operating activities and proceeds from sales of non-strategic assets associated with the Robert Mondavi acquisition, net of capital expenditures.

In connection with the pending acquisition of Vincor, the Company expects to finance the purchase price and repayment of Vincor's outstanding indebtedness with borrowings under an amended and restated senior credit facility. If the acquisition of Vincor is completed in early June 2006 as currently expected, the Company's ratio of total debt to total capitalization will be significantly impacted.

## **Senior Credit Facility**

2004 Credit Agreement In connection with the acquisition of Robert Mondavi, on December 22, 2004, the Company and its U.S. subsidiaries (excluding certain inactive subsidiaries), together with certain of its subsidiaries organized in foreign jurisdictions, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "2004 Credit Agreement"). The 2004 Credit Agreement provides for aggregate credit facilities of \$2.9 billion (subject to increase as therein provided to \$3.2 billion), consisting of a \$600.0 million tranche A term loan facility due in November 2010, a \$1.8 billion tranche B term loan facility due in November 2011, and a \$500.0 million

revolving credit facility (including a sub-facility for letters of credit of up to \$60.0 million) which terminates in December 2010. Proceeds of the 2004 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the cash consideration payable in connection with its acquisition of Robert Mondavi, and to pay certain obligations of Robert Mondavi, including indebtedness outstanding under its bank facility and unsecured notes of \$355.4 million. The Company uses its revolving credit facility under the 2004 Credit Agreement for general corporate purposes, including working capital, on an as needed basis.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on December 22, 2004. As of February 28, 2006, the required principal repayments of the tranche A term loan and the tranche B term loan for each of the five succeeding fiscal years and thereafter are as follows:

(in thousands)	Tranche A Term Loan	Tranche B Term Loan	Total
2007	\$ -	\$ -	\$ -
2008	45,182	_	45,182
2009	103,273	14,563	117,836
2010	109,727	14,563	124,290
2011	96,818	353,160	449,978
Thereafter	_	1,026,714	1,026,714
	\$355,000	\$1,409,000	\$1,764,000

The rate of interest on borrowings under the 2004 Credit Agreement, at the Company's option, is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is adjustable based upon the Company's debt ratio (as defined in the 2004 Credit Agreement) and, with respect to LIBOR borrowings, ranges between 1.00% and 1.75%. As of February 28, 2006, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The Company's obligations are guaranteed by its U.S. subsidiaries (excluding certain inactive subsidiaries) and by certain of its foreign subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in most of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to customary lending covenants including those restricting additional liens, the incurrence of additional indebtedness (including guarantees of indebtedness), the sale of assets, the payment of dividends, transactions with affiliates, the disposition and acquisition of property and the making of certain investments, in each case subject to numerous baskets, exceptions and thresholds. The financial covenants are limited to maximum total debt and senior debt coverage ratios and minimum fixed charges and interest coverage ratios. As of February 28, 2006, the Company is in compliance with all of its covenants under its 2004 Credit Agreement.

As of February 28, 2006, under the 2004 Credit Agreement, the Company had outstanding tranche A term loans of \$355.0 million bearing a weighted average interest rate of 5.8%, tranche B term loans of \$1,409.0 million bearing a weighted average interest rate of 5.9%, revolving loans of \$54.5 million bearing a weighted average interest rate of 5.7%, undrawn revolving letters of credit of \$35.1 million, and \$410.4 million in revolving loans available to be drawn.

In March 2005, the Company replaced its then outstanding five year interest rate swap agreements with new five year delayed start interest rate swap agreements effective March 1, 2006, which are outstanding as of February 28, 2006. These delayed start interest rate swap agreements extended the original hedged period through fiscal 2010. The swap agreements fixed LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five year term. The Company received \$30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from Accumulated Other Comprehensive Income ("AOCI") ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statements of Income. For Fiscal 2006, the Company reclassified \$3.6 million from AOCI to Interest Expense, net in the Company's Consolidated Statements of Income. This non-cash operating activity is included in the Other, net line in the Company's Consolidated Statements of Cash Flows.

Foreign Subsidiary Facilities The Company has additional credit arrangements available totaling \$188.9 million as of February 28, 2006. These arrangements support the financing needs of certain of the Company's foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2006, amounts outstanding under the subsidiary credit arrangements were \$52.3 million.

Senior Notes As of February 28, 2006, the Company had outstanding \$200.0 million aggregate principal amount of 8½% Senior Notes due August 2006 (the "Senior Notes"). The Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

As of February 28, 2006, the Company had outstanding £1.0 million (\$1.8 million) aggregate principal amount of 8½% Series B Senior Notes due November 2009 (the "Sterling Series B Senior Notes"). In addition, as of February 28, 2006, the Company had outstanding £154.0 million (\$270.1 million, net of \$0.3 million unamortized discount) aggregate principal amount of 8½% Series C Senior Notes due November 2009 (the "Sterling Series C Senior Notes"). The Sterling Series B Senior Notes and Sterling Series C Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Also, as of February 28, 2006, the Company had outstanding \$200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). The February 2001 Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Senior Subordinated Notes As of February 28, 2006, the Company had outstanding \$250.0 million aggregate principal amount of 8½% Senior Subordinated Notes due January 2012 (the "January 2002 Senior Subordinated Notes"). The January 2002 Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2007.

Contractual Obligations and Commitments The following table sets forth information about the Company's long-term contractual obligations outstanding at February 28, 2006. It brings together data for easy reference from the consolidated balance sheet and from individual notes to the Company's consolidated financial statements. See Notes 8, 9, 11, 12, 13 and 14 to the Company's consolidated financial statements located in this Annual Report for detailed discussion of items noted in the following table.

	Payments Due by Period							
		After						
(in thousands)	Total 1 year 1-3 years 3-5 years				5 years			
Contractual obligations								
Notes payable to banks	\$ 79,881	\$ 79,881	\$ -	\$ -	\$ -			
Long-term debt (excluding unamortized discount)	2,730,188	214,066	378,234	856,085	1,281,803			
Operating leases	457,377	65,586	97,018	71,491	223,282			
Other long-term liabilities	312,699	86,154	69,414	46,896	110,235			
Unconditional purchase obligations (1)	2,105,767	414,060	627,630	389,789	674,288			
Total contractual obligations	\$5,685,912	\$ 859,747	\$1,172,296	\$1,364,261	\$2,289,608			

(1) Total unconditional purchase obligations consist of \$26.1 million for contracts to purchase various spirits over the next seven fiscal years, \$1,920.9 million for contracts to purchase grapes over the next sixteen fiscal years, \$82.5 million for contracts to purchase bulk wine over the next eight fiscal years and \$76.3 million for processing contracts over the next nine fiscal years. See Note 14 to the Company's consolidated financial statements located in this Annual Report for a detailed discussion of these items.

### **EQUITY OFFERINGS**

During July 2003, the Company completed a public offering of 19,600,000 shares of its Class A Common Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$261.2 million. In addition, the Company also completed a public offering of 170,500 shares of its 5.75% Series A Mandatory Convertible Preferred Stock ("Preferred Stock") resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$164.9 million. The Class A Common Stock offering and the Preferred Stock offering are referred to together as the "2003 Equity Offerings." The majority of the net proceeds from the 2003 Equity Offerings were used to repay the Company's then existing bridge loans that were incurred to partially finance the Hardy Acquisition. The remaining proceeds were used to repay term loan borrowings under the Company's then existing senior credit facility.

## CAPITAL EXPENDITURES

During Fiscal 2006, the Company incurred \$132.5 million for capital expenditures. The Company plans to spend approximately \$155 million for capital expenditures in Fiscal 2007, excluding any amount the Company may incur after the completion of the pending acquisition of Vincor. In addition, the Company continues to consider the purchase, lease and development of vineyards and may incur additional expenditures for vineyards if opportunities become available. Management reviews the capital expenditure program periodically and modifies it as required to meet current business needs.

### EFFECTS OF INFLATION AND CHANGING PRICES

The Company's results of operations and financial condition have not been significantly affected by inflation and changing prices. The Company has been able, subject to normal competitive conditions, to pass along rising costs through increased selling prices and identifying on-going cost savings initiatives. There can be no assurances, however, that the Company will continue to be able to pass along rising costs through increased selling prices.

### CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in this Annual Report. However, certain of the Company's accounting policies are particularly important to the portrayal of the Company's financial position and results of operations and require the application of significant judgment by the Company's management; as a result they are subject to an inherent degree of uncertainty. In applying those policies, the Company's management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on the Company's historical experience, the Company's observance of trends in the industry, information provided by the Company's customers and information available from other outside sources, as appropriate. On an ongoing basis, the Company reviews its estimates to ensure that they appropriately reflect changes in the Company's business. The Company's critical accounting policies include:

- Accounting for promotional activities. Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates. Certain customer incentive programs require management to estimate the cost of those programs. The accrued liability for these programs is determined through analysis of programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. If assumptions included in the Company's estimates were to change or market conditions were to change, then material incremental reductions to revenue could be required, which would have a material adverse impact on the Company's financial statements. Promotional costs were \$501.9 million, \$390.9 million and \$336.4 million for Fiscal 2006, Fiscal 2005 and Fiscal 2004, respectively.
- Inventory valuation. Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of product sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on the Company's financial statements.
- Accounting for business combinations. The acquisition of businesses is an important element of the Company's strategy. Under the purchase method, the Company is required to record the net assets acquired at the estimated

- fair value at the date of acquisition. The determination of the fair value of the assets acquired and liabilities assumed requires the Company to make estimates and assumptions that affect the Company's financial statements. For example, the Company's acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred.
- Impairment of goodwill and intangible assets with indefinite lives. Intangible assets with indefinite lives consist primarily of trademarks as well as agency relationships. The Company is required to analyze its goodwill and other intangible assets with indefinite lives for impairment on an annual basis as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends. The impairment testing requires management to estimate the fair value of the assets or reporting unit and record an impairment loss for the excess of the carrying value over the fair value. The estimate of fair value of the assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting unit is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for these assets. The recording of any resulting impairment loss could have a material adverse impact on the Company's financial statements.

#### ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43 ("ARB No. 43"), "Restatement and Revision of Accounting Research Bulletins," Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. As required, the Company adopted SFAS No. 151 on March 1, 2006. The adoption of SFAS No. 151 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment." SFAS No. 123(R) replaces Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. In addition, SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a grant date fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) also amends Statement of Financial Accounting Standards No. 95 ("SFAS No. 95"), "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) applies to all awards granted, modified, repurchased, or cancelled after the required effective date (see below). In March 2005, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), "Share-Based Payment," to express the views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements for public companies. The Company adopted SFAS No. 123(R) as of March 1, 2006, using the modified prospective application. This application requires compensation cost to be recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered based on the grant date fair value of those awards as calculated under SFAS No. 123 for either recognition or pro forma disclosures. As of March 1, 2006, the unrecognized compensation expense associated with the remaining portion of the unvested outstanding awards is not material. In addition, the Company estimates stock-based compensation expense for options to be granted for the year ended February 28, 2007, to approximate \$8.5 million, excluding any options granted or which may be granted in connection with the pending acquisition of Vincor.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS No. 154"), "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the periodspecific effects or the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change of estimate effected by a change in accounting principle. SFAS No. 154 also carries forward without change the guidance in APB Opinion No. 20 with respect to accounting for changes in accounting estimates, changes in the reporting unit and correction of an error in previously issued financial statements. As required, the Company adopted SFAS No. 154 on March 1, 2006. The adoption of SFAS No. 154 did not have a material impact on the Company's consolidated financial statements.

# CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forwardlooking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical facts included in this Annual Report, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's business strategy, future financial position, prospects, plans and objectives of management, as well as information concerning expected actions of third parties are forward-looking statements. When used in this Annual Report, the words "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, important factors that could cause actual results to differ materially from those set forth in, or implied, by the Company's forward-looking statements contained in this Annual Report are as follows:

- The Company's indebtedness could have a material adverse effect on its financial health.
- The Company's acquisition and joint venture strategies may not be successful.
- Competition could have a material adverse effect on the Company's business.
- An increase in excise taxes or government regulations could have a material adverse effect on the Company's business.
- The Company relies on the performance of wholesale distributors, major retailers and chains for the success of its business.
- The Company's business could be adversely affected by a decline in the consumption of products the Company sells.
- The Company generally purchases raw materials under short-term supply contracts, and the Company is subject to substantial price fluctuations for grapes and graperelated materials, and the Company has a limited group of suppliers of glass bottles.

- The Company's operations subject it to risks relating to currency rate fluctuations, interest rate fluctuations and geopolitical uncertainty which could have a material adverse effect on the Company's business.
- The Company has a material amount of goodwill, and if the Company is required to write-down goodwill, it would reduce the Company's net income, which in turn could have a material adverse effect on the Company's results of operations.
- The termination or non-renewal of the Company's imported beer distribution agreements could have a material adverse effect on the Company's business.
- Class action or other litigation relating to alcohol abuse or the misuse of alcohol could adversely affect the Company's business.
- The Company depends upon its trademarks and proprietary rights, and any failure to protect its intellectual property rights or any claims that the Company is infringing upon the rights of others may adversely affect the Company's competitive position.
- Contamination could harm the integrity or customer support for the Company's brands and adversely affect the sales of those products.
- An increase in the cost of energy could affect the Company's profitability.
- The Company's reliance upon complex information systems distributed worldwide and its reliance upon third party global networks means the Company could experience interruptions to its business services.
- Changes in accounting standards and taxation requirements could affect the Company's financial results.
- Various diseases, pests and certain weather conditions could affect quality and quantity of grapes.

For additional information about risks and uncertainties that could adversely affect the Company's forward-looking statements, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended February 28, 2006.

# QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, as a result of its global operating, acquisition and financing activities, is exposed to market risk associated with changes in foreign currency exchange rates and interest rates. To manage the volatility relating to these risks, the Company periodically purchases and/or sells derivative instruments including foreign currency exchange contracts and interest rate swap agreements. The Company uses derivative instruments solely to reduce the financial impact of these risks and does not use derivative instruments for trading purposes.

Foreign currency forward contracts are or may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales both to third parties as well as intercompany sales, intercompany principal and interest payments, and in connection with acquisitions or joint venture investments outside the U.S. As of February 28, 2006, the Company had exposures to foreign currency risk primarily related to the Australian dollar, euro, New Zealand dollar, British pound sterling, Canadian dollar and Mexican peso.

As of February 28, 2006, and February 28, 2005, the Company had outstanding foreign exchange derivative instruments with a notional value of \$1,254.7 million and \$601.6 million, respectively. Approximately 65% of the Company's total exposures were hedged as of February 28, 2006. Using a sensitivity analysis based on estimated fair value of open contracts using forward rates, if the contract base currency had been 10% weaker as of February 28, 2006, and February 28, 2005, the fair value of open foreign exchange contracts would have been decreased by \$77.5 million and \$65.2 million, respectively. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments.

Subsequent to February 28, 2006, the Company entered into a foreign currency forward contract in connection with the pending acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. The foreign currency forward contract is for the purchase of Cdn\$1.4 billion at a rate of Cdn\$1.149 to U.S.\$1.00. The Company will be required to mark the foreign currency forward contract to market with resulting

gains or losses to be recorded in future results of operations. The Company currently expects to complete the acquisition of Vincor in early June 2006.

The fair value of fixed rate debt is subject to interest rate risk, credit risk and foreign currency risk. The estimated fair value of the Company's total fixed rate debt, including current maturities, was \$1,010.5 million and \$1,080.2 million as of February 28, 2006, and February 28, 2005, respectively. A hypothetical 1% increase from prevailing interest rates as of February 28, 2006, and February 28, 2005, would have resulted in a decrease in fair value of fixed interest rate long-term debt by \$26.9 million and \$37.0 million, respectively.

As of February 28, 2006, and February 28, 2005, the Company had outstanding five year delayed start interest rate swap agreements and five year interest rate swap agreements, respectively, to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five year term. A hypothetical 1% increase from prevailing interest rates as of February 28, 2006, and February 28, 2005, would have increased the fair value of the interest rate swaps by \$43.8 million and \$53.1 million, respectively.

In addition to the \$1,010.5 million and \$1,080.2 million estimated fair value of fixed rate debt outstanding as of February 28, 2006, and February 28, 2005, respectively, the Company also had variable rate debt outstanding (primarily LIBOR based) as of February 28, 2006, and February 28, 2005, of \$1,856.1 million and \$2,310.6 million, respectively. Using a sensitivity analysis based on a hypothetical 1% increase in prevailing interest rates over a 12-month period, the approximate increase in cash required for interest as of February 28, 2006, and February 28, 2005, is \$18.6 million and \$23.1 million, respectively.

# CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)	February 28, 2006	February 28, 2005
ASSETS	2000	2003
Current Assets:		
Cash and cash investments	\$ 10,878	\$ 17.635
Accounts receivable, net	771,875	849,642
Inventories	1,704,432	1,607,735
Prepaid expenses and other	213,670	259,023
	2,700,855	2,734,035
Total current assets		2,734,035 1.596.367
Property, Plant and Equipment, net	1,425,298	, ,
Goodwill	2,193,583	2,182,669
Intangible Assets, net	883,880	945,650
Other Assets, net	196,938	345,451
Total assets	\$7,400,554	\$7,804,172
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	\$ 79,881	\$ 16,475
Current maturities of long-term debt	214,066	68,094
Accounts payable	312,839	345,254
Accrued excise taxes	76,662	74,356
Other accrued expenses and liabilities	614,612	633,908
Total current liabilities	1,298,060	1,138,087
Long-Term Debt, less current maturities	2,515,780	3,204,707
Deferred Income Taxes	371,246	389,886
Other Liabilities	240,297	291,579
Commitments and Contingencies (Note 14)	210,207	231,073
Stockholders' Equity:		
Preferred Stock, \$.01 par value – Authorized, 1,000,000 shares; Issued,		
170,500 shares at February 28, 2006, and February 28, 2005 (Aggregate liquidation preference of \$172,951 at February 28, 2006)	2	2
Class A Common Stock, \$.01 par value – Authorized, 300,000,000 shares;		_
Issued, 203,651,535 shares at February 28, 2006, and 199,885,616 shares at February 28, 2005	2,037	1,999
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,863,138 shares at February 28, 2006, and 28,966,060 shares at February 28, 2005	289	289
	1,159,421	
Additional paid-in capital		1,097,177
Retained earnings	1,592,311	1,276,853
Accumulated other comprehensive income	247,427 3,001,487	431,843 2,808,163
Less-Treasury stock –	3,001,407	2,808,103
Class A Common Stock, 4,474,371 shares at February 28, 2006,		
and 4,823,650 shares at February 28, 2005, at cost	(24,042)	(25,984)
Class B Convertible Common Stock, 5,005,800 shares at February 28, 2006,	(24,042)	(23,304)
and February 28, 2005, at cost	(2,207)	(2,207)
	(26,249)	(28,191)
Less-Unearned compensation-restricted stock awards	(67)	(59)
Total stockholders' equity	2,975,171	2,779,913
Total liabilities and stockholders' equity	\$7,400,554	\$ 7,804,172
וטנמו וומטווונופס מוזע סנטטגווטועכוס ביןעונץ	\$7,400,554	ψ /,004,1/2

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended					
	- 1	February 28,	F	ebruary 28,	F	ebruary 29,
(in thousands, except per share data)		2006		2005		2004
Sales	\$ 5	,706,925	\$ 5	5,139,863	\$ 4	1,469,270
Less – Excise taxes	(1	,103,477)	( ]	1,052,225)		(916,841)
Net sales	4	,603,448	4	1,087,638	3	3,552,429
Cost of Product Sold	(3	3,278,859)	(2	2,947,049)	(2	2,576,641)
Gross profit	1	,324,589		1,140,589		975,788
Selling, General and Adminstrative Expenses		(612,404)		(555,694)		(457,277)
Acquisition-Related Integration Costs		(16,788)		(9,421)		-
Restructuring and Related Charges		(29,282)		(7,578)		(31,154)
Operating income		666,115		567,896		487,357
Gain on Change in Fair Value of Derivative Instruments		-		-		1,181
Equity in Earnings of Equity Method Investees		825		1,753		542
Interest Expense, net		(189,682)		(137,675)		(144,683)
Income before income taxes		477,258		431,974		344,397
Provision for Income Taxes		(151,996)		(155,510)		(123,983)
Net Income		325,262		276,464		220,414
Dividends on preferred stock		(9,804)		(9,804)		(5,746)
Income Available to Common Stockholders	\$	315,458	\$	266,660	\$	214,668
Share Data:						
Earnings per common share:  Basic – Class A Common Stock	\$	1.44	ф	1.25	\$	1.08
	<u> </u>		т			
Basic – Class B Common Stock	\$	1.31	\$	1.14	\$	0.98
Diluted	\$	1.36	\$	1.19	\$	1.03
Weighted average common phases system ding						
Weighted average common shares outstanding:  Basic – Class A Common Stock		196,907		101 400		177,267
Basic – Class B Common Stock		23,904		191,489 24,043		24,137
Diluted		,		,		,
Diluteu		238,707		233,060		213,897

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

				Additional		Accumulated Other			
(in thousands, except share data)	Preferred Stock	Commo	n Stock Class B	Paid-in Capital	Retained Earnings	Comprehensive (Loss) Income	,	Unearned Compensatio	n Total
Balance, February 28, 2003	\$ -	\$1,629	\$ 291	\$ 468,764		\$ (59,257)		<u> </u>	\$1,174,984
Comprehensive income:	Ψ	Ψ 1,020	4 201	Ψ .00,70.	φ /30,020	φ (00,207)	φ(01)01//	Ψ (101)	Ψ1,17 1,00
Net income for Fiscal 2004	_	_	_	_	220,414	_	_	_	220,414
Other comprehensive income					- /				- ,
(loss), net of tax:									
Foreign currency translation									
adjustments, net of tax									
effect of \$6,254	_	_	_	_	_	410,694	_	_	410,694
Unrealized gain (loss) on									
cash flow hedges:									
Net derivative gains, net of tax effect of \$15,714						38,199			38,199
Reclassification adjustments		_	_	_	_	36,199	_	_	30,199
net of tax effect of \$507	_	_	_	_	_	(1,250)	_	_	(1,250)
Net gain recognized in other						(1,200)			(1)2007
comprehensive income									36,949
Unrealized loss on marketable									
equity securities, net									
of tax effect of \$185	_	_	_	_	_	(432)	_	_	(432)
Minimum pension liability									
adjustment, net of tax						(1E CEO)			(1E CEO)
effect of \$6,888 Other comprehensive income,	_	_	_	_	_	(15,652)	_	_	(15,652)
net of tax									431,559
Comprehensive income									651,973
Conversion of 27,720 Class B Convertible Common shares									
to Class A Common shares	_	_	_	_	_	_	_	_	_
Exercise of 5,224,622									
Class A stock options	_	52	_	36,183	_	_	_	_	36,235
Employee stock purchases of				,					,
331,552 treasury shares	_	_	_	1,658	_	_	1,824	_	3,482
Issuance of 19,600,000									
Class A Common shares	_	196	_	261,020	_	_	_	_	261,216
Issuance of 170,500 Preferred shar	es 2	_	_	164,868	_	_	_	_	164,870
Dividend on Preferred shares	_	_	_	_	(5,746)	_	_	_	(5,746)
Issuance of 6,577,826									
Class A Common shares in		CC		77 177					77 042
connection with Hardy Acquisition Amortization of unearned	_	66	_	77,177	_	_	_	_	77,243
restricted stock compensation	_	_	_	_	_	_		101	101
Tax benefit on Class A stock								101	101
options exercised	_	_	_	13,029	_	_	_	_	13,029
Tax benefit on disposition of				,					•
employee stock purchases	_	_	_	82	-	_	_	_	82
Other		_		150		_	_	_	150
Balance, February 29, 2004	\$ 2	\$1,943	\$ 291	\$1,022,931	\$1,010,193	\$ 372,302	\$(29,993)	\$ (50)	\$2,377,619

				Additional		Accumulated Other			
(in thousands, except share data)	Preferred Stock	Commor Class A	Stock Class B	Paid-in Capital	Retained Earnings	Comprehensive (Loss) Income		Unearned Compensatio	n Total
Balance, February 29, 2004	\$2	\$1,943	\$291	\$1,022,931			\$(29,993)		\$2,377,619
Comprehensive income:	Ψ-	Ψ1,0.0	4 2 0 1	Ψ1,022,001	Ψ1,010,100	Ψ07 <u>L</u> ,00 <u>L</u>	Ψ(20,000)	Ψ (00)	φ2,077,010
Net income for Fiscal 2005	_	_	_	_	276,464	_	_	_	276,464
Other comprehensive income (loss), net of tax:									
Foreign currency translation									
adjustments, net of tax effect of \$17,056	_	_	_	_	_	79,977	_	_	79,977
Unrealized gain (loss)						,			,
on cash flow hedges:									
Net derivative gains,									
net of tax effect of \$2,749	-	_	-	_	_	2,150	_	_	2,150
Reclassification adjustments	S,					(1.700)			(1.702)
net of tax effect of \$575	_	_	_	_	_	(1,783)	_	_	(1,783)
Net gain recognized in other comprehensive income									367
Unrealized (loss) gain on									
marketable equity securities: Unrealized loss on marketab	alo								
equity securities, net of tax									
effect of \$18	_	_	_	_	_	(42)	_	_	(42)
Reclassification adjustments	S,								
net of tax effect of \$203	_	_	-	_	_	474	_	-	474
Net gain recognized in other comprehensive income									432
Minimum pension liability									
adjustment, net of tax						(01 005)			(01 005)
effect of \$8,641	_	_	_	_	_	(21,235)	_	_	(21,235)
Other comprehensive income, net of tax									59,541
Comprehensive income									336,005
Conversion of 163,200 Class B									
Convertible Common shares to Class A Common shares	_	2	(2)	_	_	_		_	_
Exercise of 5,421,978		_	(2)						
Class A stock options	_	54	_	48,345	_	_	_	_	48,399
Employee stock purchases of 348,270 treasury shares			_	2,728	_		1,962	_	4,690
Dividend on Preferred shares	_	_	_	2,720	(9,804)	_	- 1,502	_	(9,804)
Issuance of 5,330 restricted					(3,33.7				(5,55.)
Class A Common shares	_	_	_	71	_	_	30	(101)	_
Amortization of unearned									
restricted stock compensation	_	_	_	_	_	_	_	92	92
Tax benefit on Class A stock options exercised	_	_	_	22,963	_	_	_	_	22,963
Tax benefit on disposition of									
employee stock purchases	-	_	_	122	_	_	_	_	122
Other	_	-	_	17	_	_	(190)	_	(173)
Balance, February 28, 2005	\$2	\$1,999	\$289	\$1,097,177	\$1,276,853	\$431,843	\$(28,191)	\$ (59)	\$2,779,913

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)

				Additional		Accumulated Other			
(in thousands, except share data)	Preferred Stock	Commor Class A	n Stock Class B	Paid-in Capital	Retained Earnings	Comprehensive	Treasury Stock	Unearned Compensatio	n Total
Balance, February 28, 2005	\$2	\$1.999	\$289	\$1,097,177	Ü	\$ 431,843	\$(28,191)	\$ (59)	\$2,779,913
Comprehensive income:	· -	+ = , = = =	,	<b>+</b> -, · · , - · ·	+-,	+,	+ (,)	+ (/	+-,,.
Net income for Fiscal 2006	_	_	_	_	325,262	_	_	_	325,262
Other comprehensive income									
(loss), net of tax:									
Foreign currency translation									
adjustments, net of tax effect of \$6,808						(159,242)			(159,242)
Unrealized gain (loss) on	_	_	_	_	_	(139,242)	_	_	(139,242)
cash flow hedges:									
Net derivative gains,									
net of tax effect of \$3,268	_	_	_	_	_	90	_	_	90
Reclassification adjustments	,								
net of tax effect of \$4,211	_	_	_	_	_	(6,368)	_	_	(6,368)
Net loss recognized in other									(0.070)
comprehensive income									(6,278)
Unrealized loss on marketable equity securities						(4)			(4)
Minimum pension liability	_	_	_	_	_	(4)	_	_	(4)
adjustment, net of tax									
effect of \$8,248	_	_	_	_	_	(18,892)	_	_	(18,892)
Other comprehensive loss,									
net of tax									(184,416)
Comprehensive income									140,846
Conversion of 102,922 Class B									
Convertible Common shares to Class A Common shares									
Exercise of 3,662,997	_	_	_	_	_	_	_	_	_
Class A stock options	_	38	_	31,314	_	_	_	_	31,352
Employee stock purchases of				01,01					01,002
342,129 treasury shares	_	_	_	4,326	_	_	1,903	_	6,229
Acceleration of 5,130,778									
Class A stock options	_	-	_	7,324	_	_	_	_	7,324
Dividend on Preferred shares	_	_	_	_	(9,804)	_	_	_	(9,804)
Issuance of 7,150 restricted				1.61			20	(000)	
Class A Common shares	_	_	_	161	_	_	39	(200)	_
Amortization of unearned restricted stock compensation	_				_	_		192	192
Tax benefit on Class A stock		_	_	_	_	_	_	132	152
options exercised	_	_	_	19,014	_	_	_	_	19,014
Tax benefit on disposition of				,					,
employee stock purchases	_	_	_	120	_	_	_	_	120
Other				(15)					(15)
Balance, February 28, 2006	\$2	\$2,037	\$ 289	\$1,159,421	\$1,592,311	\$ 247,427	\$(26,249)	\$ (67)	\$2,975,171

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

		For the Years Ende	ed
	February 28,	February 28,	February 29,
(in thousands)	2006	2005	2004
Cash Flows from Operating Activities:			
Net income	\$ 325,262	\$ 276,464	\$ 220,414
Adjustments to reconcile net income to net cash provided by operating activities:		00.100	00.070
Depreciation of property, plant and equipment	119,946	93,139	80,079
Proceeds from early termination of derivative contracts  Deferred tax provision	48,776 30,116	48,274	31,398
Amortization of intangible and other assets	8,152	10,516	21,875
Stock-based compensation expense	7,516	10,310	233
Loss on disposal of assets	2,188	2,442	5,127
Amortization of discount on long-term debt	77	72	93
Equity in earnings of equity method investees	(825)	(1,753)	(542)
Non-cash portion of loss on extinguishment of debt	_	23,181	800
Gain on change in fair value of derivative instruments	_	_	(1,181)
Change in operating assets and liabilities, net of effects from purchases and sales of businesses:	44 101	(100 000)	(62,026)
Accounts receivable, net Inventories	44,191 (121,887)	(100,280) (74,466)	(63,036) 96,051
Prepaid expenses and other current assets	7,267	(8,100)	2,192
Accounts payable	(1,241)	11,388	(61,647)
Accrued excise taxes	3,987	25,405	7,658
Other accrued expenses and liabilities	(35,105)	11,607	11,417
Other, net	(2,449)	2,702	(10,624)
Total adjustments	110,709	44,236	119,893
Net cash provided by operating activities	435,971	320,700	340,307
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(132,498)	(119,664)	(105.094)
Purchases of businesses, net of cash acquired	(45,893)		(1,069,470)
Payment of accrued earn-out amount	(3,088)	(2,618)	(2,035)
Investment in equity method investee	(2,723)	(86,121)	_
Proceeds from sales of assets	119,679	13,771	13,449
Proceeds from sales of equity method investments	35,953	9,884	2.014
Proceeds from sales of businesses  Proceeds from sales of marketable equity securities	17,861	14,359	3,814 849
Other investing activities	(4,849)	14,339	049
Net cash used in investing activities	(15,558)	(1,222,860)	(1,158,487)
Cash Flows from Financing Activities:	(507.502)	(1, 400, 606)	(1,000,074)
Principal payments of long-term debt	(527,593)	(1,488,686)	(1,282,274)
Payment of preferred stock dividends  Net proceeds from (repayment of) notes payable	(9,804) 63,802	(9,804) (45,858)	(3,295) (1,113)
Exercise of employee stock options	31,504	48,241	36,017
Proceeds from issuance of long-term debt	9,625	2,400,000	1,600,000
Proceeds from employee stock purchases	6,229	4,690	3,481
Payment of issuance costs of long-term debt	_	(24,403)	(33,748)
Proceeds from equity offerings, net of fees		_	426,086
Net cash (used in) provided by financing activities	(426,237)	884,180	745,154
Effect of exchange rate changes on cash and cash investments  Net (Decrease) Increase in Cash and Cash Investments	(933) (6,757)	(1,521) (19,501)	96,352 23,326
Cash and Cash Investments, beginning of year	17,635	37,136	13,810
Cash and Cash Investments, end of year	\$ 10,878	\$ 17,635	\$ 37,136
Supplemental Disclosures of Cash Flow Information:	<del>+ 10,070</del>	Ψ 17,000	Ψ 0.,1200
Cash paid during the year for:			
Interest	\$ 198,787	\$ 124,899	\$ 137,359
Income taxes	\$ 42,909	\$ 83,675	\$ 76,990
Supplemental Disclosures of Non-Cash Investing and Financing Activities:	¢ 40 554	¢1 020 025	¢1 77C 0C4
Fair value of assets acquired, including cash acquired Liabilities assumed	\$ 49,554	\$1,938,035 (878,134)	\$1,776,064
Net assets acquired	(1,341) 48,213	1,059,901	(621,578) 1,154,486
Less – note payable issuance	(2,320)	1,000,001	-
Less – stock issuance	(_,0_0)	_	(77,243)
Less – direct acquisition costs accrued or previously paid	_	(985)	(5,939)
Less – cash acquired		(6,445)	(1,834)
Net cash paid for purchases of businesses	\$ 45,893	\$1,052,471	\$1,069,470

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: **DESCRIPTION OF BUSINESS** - Constellation Brands, Inc. and its subsidiaries (the "Company") operate primarily in the beverage alcohol industry. The Company is a leading international producer and marketer of beverage alcohol with a broad portfolio of brands across the wine, imported beer and spirits categories. The Company has the largest wine business in the world and is the largest multi-category supplier of beverage alcohol in the United States ("U.S."); a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom ("U.K."). In North America, the Company distributes its products through wholesale distributors. In Australia, the Company distributes its products directly to off-premise accounts, such as major retail chains, on-premise accounts, such as hotels and restaurants, and large wholesalers. In the U.K., the Company distributes its products directly to off-premise accounts, such as major retail chains, and to other wholesalers. Through the Company's U.K. wholesale business, the Company distributes its branded products and those of other major drinks companies to on-premise accounts: pubs, clubs, hotels and restaurants.

**PRINCIPLES OF CONSOLIDATION** – The consolidated financial statements of the Company include the accounts of Constellation Brands, Inc. and all of its subsidiaries. All intercompany accounts and transactions have been eliminated.

**MANAGEMENT'S USE OF ESTIMATES** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REVENUE RECOGNITION** – Sales are recognized when title passes to the customer, which is generally when the product is shipped. Amounts billed to customers for shipping and handling are classified as sales. Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates.

**COST OF PRODUCT SOLD** – The types of costs included in cost of product sold are raw materials, packaging materials, manufacturing costs, plant administrative support and overheads, and freight and warehouse costs (including distribution network costs). Distribution network costs include inbound freight charges and outbound shipping and handling costs, purchasing and receiving costs, inspection costs, warehousing and internal transfer costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES – The types of costs included in selling, general and administrative expenses consist predominately of advertising and non-manufacturing administrative and overhead costs. Distribution network costs are not included in the Company's selling, general and administrative expenses, but are included in cost of product sold as described above. The Company expenses advertising costs as incurred, shown or distributed. Prepaid advertising costs at February 28, 2006, and February 28, 2005, were not material. Advertising expense for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, was \$142.4 million, \$139.1 million and \$117.8 million, respectively.

FOREIGN CURRENCY TRANSLATION - The "functional currency" for translating the accounts of the Company's operations outside the U.S. is the local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The resulting translation adjustments are recorded as a component of Accumulated Other Comprehensive Income (Loss) ("AOCI"). Gains or losses resulting from foreign currency denominated transactions are included in selling, general and administrative expenses in the Company's Consolidated Statements of Income. The Company engages in foreign currency denominated transactions with customers, suppliers and non-U.S. subsidiaries. Aggregate foreign currency transaction net gains were \$5.1 million, \$5.3 million and \$16.6 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively.

*CASH INVESTMENTS* – Cash investments consist of highly liquid investments with an original maturity when purchased of three months or less and are stated at cost, which approximates market value. The amounts at February 28, 2006, and February 28, 2005, are not significant.

ALLOWANCE FOR DOUBTFUL ACCOUNTS – The Company records an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The majority of the accounts receivable balance is generated from sales to independent distributors with whom the Company has a predetermined collection date arranged through electronic funds transfer. The allowance for doubtful accounts was \$13.5 million and \$16.3 million as of February 28, 2006, and February 28, 2005, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS – To meet the reporting requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," the Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models for

various types of financial instruments (such as forwards, options, swaps, etc.) which take into account the present value of estimated future cash flows.

The carrying amount and estimated fair value of the Company's financial instruments are summarized as follows:

	February 28, 2006			February 28, 2005		
		Carrying	Fair	Carrying	Fair	
(in thousands)		Amount	Value	Amount	Value	
Assets:						
Cash and cash investments	\$	10,878	10,878	\$ 17,635	\$ 17,635	
Accounts receivable	\$	771,875	771,875	\$ 849,642	\$ 849,642	
Investment in marketable equity securities	\$	27 9	§ 27	\$ -	\$ -	
Currency forward contracts	\$	11,677	11,677	\$ 45,606	\$ 45,606	
Interest rate swap contracts	\$	1,429	1,429	\$ 14,684	\$ 14,684	
Liabilities:						
Notes payable to banks	\$	79,881	79,881	\$ 16,475	\$ 16,475	
Accounts payable	\$	312,839	312,839	\$ 345,254	\$ 345,254	
Long-term debt, including						
current portion	\$2	,729,846	\$2,786,720	\$3,272,801	\$3,374,337	
Currency forward contracts	\$	3,960	3,960	\$ 2,061	\$ 2,061	

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash investments, accounts receivable and accounts payable: The carrying amounts approximate fair value due to the short maturity of these instruments.
- *Investment in marketable equity securities:* The fair value is estimated based on quoted market prices.
- *Currency forward contracts:* The fair value is estimated based on quoted market prices.
- Interest rate swap contracts: The fair value is estimated based on quoted market prices.
- *Notes payable to banks:* These instruments are variable interest rate bearing notes for which the carrying value approximates the fair value.
- Long-term debt: The senior credit facility is subject to variable interest rates which are frequently reset; accordingly, the carrying value of this debt approximates its fair value. The fair value of the remaining long-term debt, which is all fixed rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities.

**DERIVATIVE INSTRUMENTS** – As a multinational company, the Company is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect the Company's results of operations and financial condition. The amount of volatility realized will vary based upon the effectiveness and level of derivative instruments outstanding during a particular period of time, as well as the currency and interest rate market movements during that same period.

The Company enters into derivative instruments, primarily interest rate swaps and foreign currency forwards, to manage interest rate and foreign currency risks. In accordance with Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments

at fair value. The fair values of the Company's derivative instruments change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company's derivative instruments are held solely to hedge economic exposures. The Company follows strict policies to manage interest rate and foreign currency risks, including prohibitions on derivative market-making or other speculative activities. As of February 28, 2006, and February 28, 2005, the Company had foreign exchange contracts outstanding with a notional value of \$1,254.7 million and \$601.6 million, respectively. In addition, as of February 28, 2006, and February 28, 2005, the Company had interest rate swap agreements outstanding with a notional value of \$1,200.0 million (see Note 9).

To qualify for hedge accounting under SFAS No. 133, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures.

Certain of the Company's derivative instruments do not qualify for SFAS No. 133 hedge accounting treatment; for others, the Company chooses not to maintain the required documentation to apply hedge accounting treatment. These instruments are used to hedge the Company's exposure to fluctuations in the value of foreign currency denominated receivables and payables, foreign currency investments, primarily consisting of loans to subsidiaries, and cash flows related primarily to repatriation of those loans or investments. Forward contracts, generally less than 12 months in duration, are used to hedge some of these risks. The Company's derivative policy permits the use of non-SFAS No. 133 hedging when the hedging instrument is settled within the fiscal quarter or offsets a recognized

balance sheet exposure. In these circumstances, the mark to fair value is reported currently through earnings in selling, general and administrative expenses in the Company's Consolidated Statements of Income.

Furthermore, for derivative instruments which qualify for hedge accounting treatment, when it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company discontinues hedge accounting prospectively when (i) the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur; or (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Cash flow hedges: The Company is exposed to foreign denominated cash flow fluctuations in connection with sales to third parties, intercompany sales, available for sale securities and intercompany financing arrangements. Foreign currency forward contracts are used to hedge certain of these risks. In addition, the Company utilizes interest rate swaps to manage its exposure to changes in interest rates. Derivatives managing the Company's cash flow exposures generally mature within three years or less, with a maximum maturity of five years. Throughout the term of the designated cash flow hedge relationship, but at least quarterly, a retrospective evaluation and prospective assessment of hedge effectiveness is performed. In the event the relationship is no longer effective, the fair market value of the hedging derivative instrument is recognized immediately in the Company's Consolidated Statements of Income. In conjunction with its effectiveness testing, the Company also evaluates ineffectiveness associated with the hedge relationship. Resulting ineffectiveness, if any, is recognized immediately in the Company's Consolidated Statements of Income.

The Company records the fair value of its foreign exchange contracts qualifying for cash flow hedge accounting treatment in its consolidated balance sheet with the related gain or loss on those contracts deferred in stockholders' equity (as a component of AOCI). These deferred gains or losses are recognized in the Company's Consolidated Statements of Income in the same period in which the underlying hedged items are recognized, and on the same line item as the underlying hedged items. However, to the extent that any derivative instrument is not considered to be perfectly effective in offsetting the change in the value of the hedged item, the amount related to the ineffective portion of this derivative instrument is immediately recognized in the Company's Consolidated Statements of Income in selling, general and administrative expenses.

The Company expects \$13.4 million of net gains to be reclassified from AOCI to earnings within the next 12 months. The amount of hedge ineffectiveness associated with the Company's designated cash flow hedge instruments recognized in the Company's Consolidated Statements of Income during the years ended February 28, 2006, February 28, 2005, and February 29, 2004, was not material. All com-

ponents of the Company's derivative instruments' gains or losses are included in the assessment of hedge effectiveness. In addition, the amount of net gains reclassified into earnings as a result of the discontinuance of cash flow hedge accounting due to the probability that the original forecasted transaction would not occur by the end of the originally specified time period was not material for the years ended February 28, 2006, February 28, 2005, and February 29, 2004.

Fair value hedges: Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets and liabilities, and firm commitments. The Company records changes in fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items.

The amount of hedge ineffectiveness associated with the Company's designated fair value hedge instruments recognized in the Company's Consolidated Statements of Income for the years ended February 28, 2006, and February 28, 2005, was not material. The Company did not have any fair value hedge instruments outstanding for the year ended February 29, 2004. All components of the Company's derivative instruments' gains or losses are included in the assessment of hedge effectiveness. There were no gains or losses recognized in earnings resulting from a hedged firm commitment no longer qualifying as a fair value hedge.

Net investment hedges: Net investment hedges are hedges that use derivative instruments or non-derivative instruments to hedge the foreign currency exposure of a net investment in a foreign operation. The Company manages currency exposures resulting from its net investments in foreign subsidiaries principally with debt denominated in the related foreign currency. Gains and losses on these instruments are recorded as foreign currency translation adjustments in AOCI. Currently, the Company has designated the Sterling Senior Notes and the Sterling Series C Senior Notes (as defined in Note 9) totaling £155.0 million aggregate principal amount as a hedge against the net investment in the Company's U.K. subsidiary. For the years ended February 28, 2006, February 28, 2005, and February 29, 2004, net gains (losses) of \$25.9 million, (\$8.1) million and (\$45.9) million, respectively, are included in foreign currency translation adjustments within AOCI.

Counterparty credit risk: Counterparty credit risk relates to losses the Company could incur if a counterparty defaults on a derivative contract. The Company manages exposure to counterparty credit risk by requiring specified minimum credit standards and diversification of counterparties. The Company enters into master agreements with its counterparties that allow netting of certain exposures in order to manage this risk. All of the Company's counterpart exposures are with counterparts that have investment grade ratings. The Company has procedures to monitor the credit exposure for both mark to market and future potential exposures.

**INVENTORIES** – Inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of cost include materials, labor and overhead and are classified as follows:

(in thousands)	February 28, <b>2006</b>	February 28, 2005
Raw materials and supplies	\$ 82,366	\$ 71,562
In-process inventories	1,081,304	957,567
Finished case goods	540,762	578,606
	\$1,704,432	\$1,607,735

A substantial portion of barreled whiskey and brandy will not be sold within one year because of the duration of the aging process. All barreled whiskey and brandy are classified as in-process inventories and are included in current assets, in accordance with industry practice. Bulk wine inventories are also included as in-process inventories within current assets, in accordance with the general practices of the wine industry, although a portion of such inventories may be aged for periods greater than one year. Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whiskey and brandy held for aging are included in inventory costs.

The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of product sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which would result in additional expense to the Company and affect its results of operations.

**PROPERTY, PLANT AND EQUIPMENT** – Property, plant and equipment is stated at cost. Major additions and betterments are charged to property accounts, while maintenance and repairs are charged to operations as incurred. The cost of properties sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts at the time of disposal and resulting gains and losses are included as a component of operating income.

**DEPRECIATION** – Depreciation is computed primarily using the straight-line method over the following estimated useful lives:

	Depreciable Life in Years
Land improvements	15 to 32
Vineyards	16 to 26
Buildings and improvements	10 to 44
Machinery and equipment	3 to 35
Motor vehicles	3 to 7

GOODWILL AND OTHER INTANGIBLE ASSETS - In accordance with Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets," the Company reviews its goodwill and indefinite lived intangible assets annually for impairment, or sooner, if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company uses December 31 as its annual impairment test measurement date. Indefinite lived intangible assets consist principally of trademarks. Intangible assets determined to have a finite life, primarily distribution agreements, are amortized over their estimated useful lives and are subject to review for impairment in accordance with the provisions of SFAS No. 144 (as defined below). Note 6 provides a summary of intangible assets segregated between amortizable and nonamortizable amounts. No instances of impairment were noted on the Company's goodwill and other intangible assets for the years ended February 28, 2006, February 28, 2005, and February 29, 2004.

OTHER ASSETS – Other assets include the following: (i) investments in equity method investees which are carried under the equity method of accounting (see Note 7); (ii) deferred financing costs which are stated at cost, net of accumulated amortization, and are amortized on an effective interest basis over the term of the related debt; (iii) deferred tax assets which are stated at cost, net of valuation allowances (see Note 10); and (iv) derivative assets which are stated at fair value (see discussion above).

LONG-LIVED ASSETS IMPAIRMENT - In accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value. Assets held for sale are reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

Pursuant to this policy and in connection with the restructuring plan of the Constellation Wines segment (see Note 20), the Company recorded losses of \$2.1 million on the disposal of certain property, plant and equipment during the year ended February 29, 2004. These losses are included in restructuring and related charges on the Company's Consolidated Statements of Income as they are part of the restructuring plan. No losses were recorded for the years ended February 28, 2006, and February 28, 2005.

**INCOME TAXES** – The Company uses the asset and liability method of accounting for income taxes. This method accounts for deferred income taxes by applying statutory rates in effect at the balance sheet date to the difference

between the financial reporting and tax bases of assets and liabilities.

**ENVIRONMENTAL** – Environmental expenditures that relate to current operations or to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities for environmental risks or components thereof are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company's commitment to a formal plan of action. Liabilities for environmental costs were not material at February 28, 2006, and February 28, 2005.

EARNINGS PER COMMON SHARE – Effective June 1, 2004, the Company adopted EITF Issue No. 03-6 ("EITF No. 03-6"), "Participating Securities and the Two-Class Method under FASB Statement No. 128." EITF No. 03-6 clarifies what is meant by a "participating security," provides guidance on applying the two-class method for computing earnings per share, and requires affected companies to retroactively restate earnings per share amounts for all periods presented.

The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. With respect to dividend rights, the Class A Common Stock is entitled to cash dividends of at least ten percent higher than those declared and paid on the Class B Convertible Common Stock. Therefore, under EITF No. 03-6, the Class B Convertible Common Stock is considered a participating security requiring the use of the two-class method for the computation of net income per share - basic, rather than the if-converted method which was previously used. In addition, the shares of Class B Convertible Common Stock are considered to be participating convertible securities since the shares of Class B Convertible Common Stock are convertible into shares of Class A Common Stock on a oneto-one basis at any time at the option of the holder. The two-class computation method for each period reflects the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the minimum dividend rights of each class of stock. Earnings per share – basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented. Earnings per share – diluted continues to be computed using the if-converted method (see Note 16).

Basic earnings per common share excludes the effect of common stock equivalents and is computed using the two-class computation method. Diluted earnings per common share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock and Preferred Stock (as defined in Note 15) using the if-converted method.

**STOCK-BASED EMPLOYEE COMPENSATION PLANS** – As of February 28, 2006, the Company has four stock-based

employee compensation plans, which are described more fully in Note 15. The Company applies the intrinsic value method described in Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," and related interpretations in accounting for these plans. In accordance with APB No. 25, the compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. Options granted under the Company's stock option plans have an exercise price equal to the market value of the underlying common stock on the date of grant; therefore, no incremental compensation expense has been recognized for grants made to employees under the Company's stock option plans. The Company utilizes the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," as amended.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment," which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. The Company adopted SFAS No. 123(R) on March 1, 2006. See Note 23 for additional discussion regarding SFAS No. 123(R).

Stock-based awards, primarily stock options, granted by the Company are subject to specific vesting conditions, generally time vesting, or at the date the employee retires (as defined by the stock option plan), if earlier. Under APB No. 25, as the exercise price is equal to the market value of the underlying common stock on the date of grant, no compensation expense is recognized for the granting of these stock options. Under the disclosure only provisions of SFAS No. 123, for stock-based awards that specify an employee vests in the award upon retirement, the Company accounts for the compensation expense ratably over the stated vesting period. If the employee retires before the end of the stated vesting period, then any remaining unrecognized compensation expense is accounted for at the date of retirement. The Company will continue to apply this approach for any awards granted prior to the Company's adoption of SFAS No. 123(R) on March 1, 2006, and for the unrecognized compensation expense associated with the remaining portion of the then unvested outstanding awards. The remaining portion of the unvested outstanding awards as of February 28, 2006, is not material.

With the Company's adoption of SFAS No. 123(R) on March 1, 2006, the Company revised its approach for recognition of compensation expense for all new stock-based awards that accelerate vesting upon retirement. Under this revised approach, compensation expense will be recognized immediately for awards granted to retirement-eligible employees or over the period from the date of grant to the date of retirement-eligibility if that is expected to occur during the requisite service period.

On February 16, 2006, the Company's Board of Directors approved the accelerated vesting of certain

unvested stock options previously awarded under the Company's Long-Term Stock Incentive Plan and Incentive Stock Option Plan. Nearly all of the accelerated vesting was for stock options awarded with a performance-based acceleration feature. The acceleration of these stock options will enable the Company to more accurately forecast future compensation expense and to reduce related earnings volatility. As a result of the accelerated vesting, options to purchase 5,130,778 shares of the Company's Class A Common Stock, of which 98.7% were in-the-money, became fully exercisable. The acceleration eliminates future compensation expense of approximately \$38.8 million that would have otherwise been recognized in the Company's Consolidated Statements of Income beginning March 1, 2006, through February 28, 2010. Also on February 16, 2006, the Company announced its worldwide wines reorganization (see Note 20). As a result of these foregoing actions, the Company recorded \$7.3 million of stock-based employee compensation expense during the year ended February 28, 2006, of which \$6.9 million is recorded as Restructuring and Related Charges and \$0.4 million is recorded as selling, general and administrative expenses in the Company's Consolidated Statements of Income.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stockbased employee compensation:

	For the Years Ended						
(in thousands, except per share data)	Feb	oruary 28, 2006	Febr	February 28, 2005		uary 29, 2004	
Net income, as reported	\$3	25,262	\$2	76,464	\$220,414		
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects Deduct: Total stock-based employee compensation expense determined under fair value based		4,801		69	160		
method for all awards, net of related tax effects	(	38,718)	(;	33,461)	(	16,582)	
Pro forma net income	\$291,345			\$ 243,072		03,992	
Earnings per common share – basic: Class A Common Stock, as reported	\$	1.44	\$	1.25	\$	1.08	
Class B Convertible Common Stock, as reported	\$	1.31	\$	1.14	\$	0.98	
Class A Common Stock, pro forma	\$	1.29	\$	1.09	\$	1.00	
Class B Convertible Common Stock, pro forma	\$	1.17	\$	0.99	\$	0.90	
Earnings per common share – diluted, as reported	\$	1.36	\$	1.19	\$	1.03	
Earnings per common share – diluted, pro forma	\$	1.21	\$	1.04	\$	0.95	

#### 2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 109-2 ("FSP FAS 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision (see Note 10).

Effective September 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board Opinion No. 29 ("APB No. 29"), "Accounting for Nonmonetary Transactions," to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replace it with a general exception from fair value measurement for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS No. 153 did not have a material impact on the Company's consolidated financial statements.

Effective February 28, 2006, the Company adopted FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143." FIN No. 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations." A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The adoption of FIN No. 47 did not have a material impact on the Company's consolidated financial statements.

## 3. ACQUISITIONS:

ACQUISITION OF ROBERT MONDAVI – On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation ("Robert Mondavi"), a leading premium wine producer based in Napa, California. Through this transaction, the Company acquired various additional winery and vineyard interests, and, additionally produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. As a result of the Robert Mondavi acquisition, the Company acquired an ownership interest in Opus One, a joint venture owned equally by Robert Mondavi and Baron Philippe de Rothschild, S.A. During September 2005, the Company's president and

Baroness Philippine de Rothschild announced an agreement to maintain equal ownership of Opus One. Opus One produces fine wines at its Napa Valley winery.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of sales from these brands are generated in the United States. The Company is leveraging the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company also intends to further expand distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure.

The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. The Robert Mondavi acquisition provides the Company with a greater presence in the growing premium, super-premium and fine wine sectors within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom and other "new world" wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was \$1,030.7 million. Additionally, the Company incurred direct acquisition costs of \$12.0 million. The purchase price was financed with borrowings under the Company's 2004 Credit Agreement (as defined in Note 9). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of the Robert Mondavi business, including the factors described above, as well as an estimated benefit from operating cost synergies.

The results of operations of the Robert Mondavi business are reported in the Constellation Wines segment and have been included in the Consolidated Statements of Income since the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Robert Mondavi acquisition at the date of acquisition, as adjusted for the final appraisal:

### (in thousands)

, , , , , , , , , , , , , , , , , , , ,	
Current assets	\$ 513,782
Property, plant and equipment	438,140
Other assets	124,450
Trademarks	138,000
Goodwill	634,203
Total assets acquired	1,848,575
Current liabilities	310,919
Long-term liabilities	494,995
Total liabilities assumed	805,914
Net assets acquired	\$1,042,661

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

Following the Robert Mondavi acquisition, the Company sold certain of the acquired vineyard properties and related assets, investments accounted for under the equity method, and other winery properties and related assets, during the years ended February 28, 2006, and February 28, 2005. The Company realized net proceeds of \$170.8 million from the sale of these assets during the year ended February 28, 2006. Amounts realized during the year ended February 28, 2005, were not material. No gain or loss has been recognized upon the sale of these assets.

HARDY ACQUISITION - On March 27, 2003, the Company acquired control of BRL Hardy Limited, now known as Hardy Wine Company Limited ("Hardy"), and on April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding capital stock. As a result of the acquisition of Hardy, the Company also acquired the remaining 50% ownership of Pacific Wine Partners LLC ("PWP"), the joint venture the Company established with Hardy in July 2001. The acquisition of Hardy along with the remaining interest in PWP is referred to together as the "Hardy Acquisition." Through this acquisition, the Company acquired one of Australia's largest wine producers with interests in wineries and vineyards in most of Australia's major wine regions as well as New Zealand and the United States and Hardy's marketing and sales operations in the United Kingdom. In October 2005, PWP was merged into another subsidiary of the Company.

Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was \$1,137.4 million. Additionally, the Company recorded direct acquisition costs of \$17.2 million. The acquisition date for accounting purposes is March 27, 2003. The Company has recorded a \$1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is included as interest expense in the Consolidated Statement of Income for the year ended February 29, 2004. The cash portion of the purchase price paid to the Hardy shareholders and optionholders (\$1,060.2 million) was financed with \$660.2 million of borrowings under the Company's then existing credit agreement and \$400.0 million of borrowings under the Company's then existing bridge loan agreement. Additionally, the Company issued 6,577,826 shares of the Company's Class A Common Stock, which were valued at \$77.2 million based on the simple average of the closing market price of the Company's Class A Common Stock beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The purchase price was based primarily on a discounted cash flow analysis that contemplated, among other things, the value of a broader geographic distribution in strategic international markets and a presence in the important Australian winemaking regions. The Company and Hardy have complementary businesses that share a common growth orientation and operating philosophy. The Hardy Acquisition supports the Company's strategy of growth and breadth across categories

and geographies, and strengthens its competitive position in its core markets. The purchase price and resulting good-will were primarily based on the growth opportunities of the brand portfolio of Hardy. In particular, the Company believes there are growth opportunities for Australian wines in the United Kingdom, United States and other wine markets. This acquisition supports the Company's strategy of driving long-term growth and positions the Company to capitalize on the growth opportunities in "new world" wine markets.

The results of operations of Hardy and PWP are reported in the Constellation Wines segment and have been included in the Consolidated Statements of Income since the accounting acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Hardy Acquisition at the date of acquisition, as adjusted for the final appraisal:

(in thousands)	
Current assets	\$ 557,128
Property, plant and equipment	332,125
Other assets	30,135
Trademarks	263,120
Goodwill	613,608
Total assets acquired	1,796,116
Current liabilities	311,138
Long-term liabilities	331,954
Total liabilities assumed	643,092
Net assets acquired	\$1.153.024

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

The following table sets forth the unaudited pro forma results of operations of the Company for the years ended February 28, 2005, and February 29, 2004, respectively. The unaudited pro forma results of operations for the years ended February 28, 2005, and February 29, 2004, give effect to the Robert Mondavi acquisition as if it occurred on March 1, 2003. The unaudited pro forma results of operations for the year ended February 29, 2004, do not give effect to the Hardy Acquisition as if it occurred on March 1, 2003, as it is not significant. The unaudited pro forma results of operations are presented after giving effect to certain adjustments for depreciation, amortization of deferred financing costs, interest expense on the acquisition financing, interest expense associated with adverse grape contracts, and related income tax effects. The unaudited pro forma results of operations are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma results of operations for the year ended February 29, 2004, do not reflect total pretax nonrecurring charges of \$21.9 million (\$0.07 per share on a diluted basis) related to transaction costs, primarily for the acceleration of vesting of stock options, legal fees and

investment banker fees, all of which were incurred by Robert Mondavi prior to the acquisition. The unaudited pro forma results of operations do not purport to present what the Company's results of operations would actually have been if the aforementioned transactions had in fact occurred on such date or at the beginning of the period indicated, nor do they project the Company's financial position or results of operations at any future date or for any future period.

For the Years Ended				
February 28,	February 29,			
2005	2004			
\$4,479,603	\$4,017,436			
\$ 383,035	\$ 384,330			
\$ 243,437	\$ 245,812			
\$ 233,633	\$ 240,066			
\$ 1.10	\$ 1.21			
\$ 1.00	\$ 1.10			
\$ 1.04	\$ 1.15			
191,489	177,267			
24,043	24,137			
233,060	213,897			
	February 28, 2005 \$4,479,603 \$ 383,035 \$ 243,437 \$ 233,633 \$ 1.10 \$ 1.00 \$ 1.04			

During the year ended February 28, 2006, the Company completed its acquisition of two businesses, Rex Goliath and Cocktails by Jenn, for a total combined purchased price of \$48.2 million. Unaudited pro forma results of operations for the years ended February 28, 2006, and February 28, 2005, to give pro forma effect to these acquisitions as if they occurred on March 1, 2004, are not shown as they are not significant.

### 4. PROPERTY, PLANT AND EQUIPMENT:

The major components of property, plant and equipment are as follows:

(in thousands)	February 28, 2006	February 28, 2005
Land and land improvements	\$ 245,237	\$ 308,119
Vineyards	187,651	236,827
Buildings and improvements	373,160	367,544
Machinery and equipment	1,042,207	1,029,297
Motor vehicles	16,226	19,351
Construction in progress	73,876	63,776
	1,938,357	2,024,914
Less – Accumulated depreciation	(513,059)	(428,547)
	\$1,425,298	\$1,596,367

### 5. GOODWILL:

The changes in the carrying amount of goodwill for the year ended February 28, 2006, are as follows:

(in thousands)	Constellation Wines	Constellation Beers and Spirits	Consolidated
	WILLES	Spirits	Corisonuateu
Balance,			
February 28, 2005	\$ 2,031,244	\$ 151,425	\$ 2,182,669
Purchase accounting			
allocations	74,216	6,008	80,224
Foreign currency			
translation adjustments	(73,429)	1,210	(72,219)
Purchase price earn-out	2,888	21	2,909
Balance,			
February 28, 2006	\$2,034,919	\$158,664	\$2,193,583

The purchase accounting allocations of goodwill totaling \$80.2 million consist primarily of final purchase accounting allocations associated with the Robert Mondavi acquisition and goodwill resulting from the acquisition of two businesses, Rex Goliath and Cocktails by Jenn. In addition, the purchase price for Cocktails by Jenn includes an earn-out for a period of up to ten years based on the performance of the brands. The results of operations of Rex Goliath are reported in the Constellation Wines segment and the results of operations of Cocktails by Jenn are reported in the Constellation Beers and Spirits segment, and have been included in the Consolidated Statements of Income since their respective acquisition dates.

### 6. INTANGIBLE ASSETS:

The major components of intangible assets are:

	February 28, 2006		February 28, 2005	
(in thousands)	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
Amortizable intangible assets:				
Distributor relationships	\$ 3,700	\$ 3,556	\$ 3,700	\$ 3,679
Distribution agreements	18,882	7,006	12,884	1,666
Other	2,387	1,338	5,230	1,229
Total	\$24,969	11,900	\$21,814	6,574
Nonamortizable intangible assets:				
Trademarks		853,568		920,664
Agency relationships		18,412		18,412
Total		871,980		939,076
Total intangible assets		\$883,880		\$ 945,650

The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was \$1.9 million, \$2.8 million, and \$2.6 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively. Estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

(in thousands)	
2007	\$1,498
2008	\$1,177
2009	\$1,165
2010	\$1,143
2011	\$ 869
Thereafter	\$6,048

### 7. OTHER ASSETS:

The major components of other assets are as follows:

	2005
\$146,639	\$259,181
34,827	34,827
15,824	21,808
3,714	23,147
11,557	15,880
212,561	354,843
(15,623)	(9,392)
\$196,938	\$345,451
	34,827 15,824 3,714 11,557 212,561 (15,623)

In connection with the Hardy Acquisition and the Robert Mondavi acquisition, the Company acquired several investments which are being accounted for under the equity method. The primary investment consists of Opus One, a 50% owned joint venture arrangement (see Note 3). The percentage of ownership of the remaining investments ranges from 20% to 50%.

In addition, on December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. ("Ruffino"), the well-known Italian fine wine company, for \$89.6 million, including direct acquisition costs of \$7.5 million. The Company does not have a controlling interest in Ruffino or exert any managerial control. The Company accounts for the investment under the equity method; accordingly, the results of operations of Ruffino from December 3, 2004, are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income.

As of February 1, 2005, the Company's Constellation Wines segment began distribution of Ruffino's products in the U.S. In connection with this arrangement, for the year ended February 28, 2006, the Company purchased from Ruffino \$41.7 million of inventory with normal terms and conditions. Amounts purchased for the year ended February 28, 2005, were not material. As of February 28, 2006, amounts payable to Ruffino were not material.

During the year ended February 28, 2005, the Company sold its available-for-sale marketable equity security for cash proceeds of \$14.4 million resulting in a gross realized loss of \$0.7 million.

Amortization expense for other assets was included in selling, general and administrative expenses and was \$6.2 million, \$7.7 million, and \$19.3 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively. Amortization expense for the year ended February 29, 2004, included \$7.9 million related to amortization of the deferred financing costs associated with the Company's then existing bridge loan agreement. As of February 29, 2004, the deferred financing costs associated with the Company's then existing bridge loan agreement were fully amortized.

### 8. OTHER ACCRUED EXPENSES AND LIABILITIES:

The major components of other accrued expenses and liabilities are as follows:

(in thousands)	February 28, 2006	February 28, 2005
Advertising and promotions	\$174,119	\$ 193,353
Income taxes payable	113,210	59,754
Salaries and commissions	77,329	63,367
Adverse grape contracts (Note 14)	59,049	66,737
Other	190,905	250,697
	\$614,612	\$ 633,908

## 9. BORROWINGS:

Borrowings consist of the following:

	February 28,		February 28,
	2006		2005
(in thousands)	Current	Long-term Total	Total
Notes Payable to Banks:			
Senior Credit Facility – Revolving Credit Loans	\$ 54,500	\$ - \$ 54,500	\$ 14,000
Other	25,381	- 25,381	2,475
	\$ 79,881	\$ - \$ 79,881	\$ 16,475
Long-term Debt:			
Senior Credit Facility – Term Loans	\$ -	\$1,764,000 \$1,764,000	\$2,280,500
Senior Notes	200,000	471,466 671,466	697,297
Senior Subordinated Notes	-	250,000 250,000	250,000
Other Long-term Debt	14,066	30,314 44,380	45,004
	\$214,066	\$2,515,780 \$2,729,846	\$3,272,801

SENIOR CREDIT FACILITY – In connection with the acquisition of Robert Mondavi, on December 22, 2004, the Company and its U.S. subsidiaries (excluding certain inactive subsidiaries), together with certain of its subsidiaries organized in foreign jurisdictions, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "2004 Credit Agreement"). The 2004 Credit Agreement provides for aggregate credit facilities of \$2.9 billion (subject to increase as therein provided to \$3.2 billion), consisting of a \$600.0 million tranche A term loan facility due in November 2010, a \$1.8 billion tranche B term loan facility due in November 2011, and a \$500.0 million revolving credit facility (including a sub-facility for letters of credit of up to \$60.0 million) which terminates in

December 2010. Proceeds of the 2004 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the cash consideration payable in connection with its acquisition of Robert Mondavi, and to pay certain obligations of Robert Mondavi, including indebtedness outstanding under its bank facility and unsecured notes of \$355.4 million. The Company uses its revolving credit facility under the 2004 Credit Agreement for general corporate purposes, including working capital, on an as needed basis. In connection with entering into the 2004 Credit Agreement, the Company recorded a charge during the year ended February 28, 2005, of \$21.4 million in selling, general and administrative expenses for the write-off of bank fees related to the repayment of the Company's prior senior credit facility.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on December 22, 2004. As of February 28, 2006, the required principal repayments of the tranche A term loan and the tranche B term loan for each of the five succeeding fiscal years and thereafter are as follows:

	Tranche A	Tranche B		
(in thousands)	Term Loan	Term Loan	Total	
2007	\$ -	\$ -	\$ -	
2008	45,182	_	45,182	
2009	103,273	14,563	117,836	
2010	109,727	14,563	124,290	
2011	96,818	353,160	449,978	
Thereafter	_	1,026,714	1,026,714	
	\$355,000	\$1,409,000	\$1,764,000	

The rate of interest on borrowings under the 2004 Credit Agreement, at the Company's option, is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is adjustable based upon the Company's debt ratio (as defined in the 2004 Credit Agreement) and, with respect to LIBOR borrowings, ranges between 1.00% and 1.75%. As of February 28, 2006, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.25%, while the LIBOR margin on the tranche B term loan facility is 1.50%.

The Company's obligations are guaranteed by its U.S. subsidiaries (excluding certain inactive subsidiaries) and by certain of its foreign subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in most of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to customary lending covenants including those restricting additional liens, the incurrence of additional indebtedness (including guarantees of indebtedness), the sale of assets, the payment of dividends, transactions with affiliates, the disposition and acquisition of property and the making of certain investments, in each case subject to numerous baskets, exceptions and thresholds. The financial covenants are limited to maximum total debt and senior debt coverage ratios and minimum fixed charges and interest coverage ratios. As of February 28, 2006, the Company is in compliance with all of its covenants under its 2004 Credit Agreement.

As of February 28, 2006, under the 2004 Credit Agreement, the Company had outstanding tranche A term loans of \$355.0 million bearing a weighted average interest rate of 5.8%, tranche B term loans of \$1,409.0 million bearing a weighted average interest rate of 5.9%, revolving loans of \$54.5 million bearing a weighted average interest rate of 5.7%, undrawn revolving letters of credit of \$35.1 million, and \$410.4 million in revolving loans available to be drawn.

In March 2005, the Company replaced its then outstanding five year interest rate swap agreements with new five year delayed start interest rate swap agreements effective March 1, 2006, which are outstanding as of February 28, 2006. These delayed start interest rate swap agreements extended the original hedged period through fiscal 2010. The swap agreements fixed LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five year term. The Company received \$30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from Accumulated Other Comprehensive Income ("AOCI") ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statements of Income. For the year ended February 28, 2006, the Company reclassified \$3.6 million from AOCI to Interest Expense, net in the Company's Consolidated Statements of Income. This noncash operating activity is included in the Other, net line in the Company's Consolidated Statements of Cash Flows.

FOREIGN SUBSIDIARY FACILITIES – The Company has additional credit arrangements available totaling \$188.9 million as of February 28, 2006. These arrangements support the financing needs of certain of the Company's foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2006, and February 28, 2005, amounts outstanding under the subsidiary credit arrangements were \$52.3 million and \$34.0 million, respectively.

**SENIOR NOTES** – On August 4, 1999, the Company issued \$200.0 million aggregate principal amount of 8½% Senior Notes due August 2006 (the "August 1999 Senior Notes"). Interest on the August 1999 Senior Notes is payable semi-annually on February 1 and August 1. As of February 28, 2006, the Company had outstanding \$200.0 million aggregate principal amount of August 1999 Senior Notes.

On November 17, 1999, the Company issued £75.0 million (\$121.7 million upon issuance) aggregate principal amount of 81/2% Senior Notes due November 2009 (the "Sterling Senior Notes"). Interest on the Sterling Senior Notes is payable semiannually on May 15 and November 15. In March 2000, the Company exchanged £75.0 million aggregate principal amount of 8½% Series B Senior Notes due in November 2009 (the "Sterling Series B Senior Notes") for all of the Sterling Senior Notes. The terms of the Sterling Series B Senior Notes are identical in all material respects to the Sterling Senior Notes. In October 2000, the Company exchanged £74.0 million aggregate principal amount of Sterling Series C Senior Notes (as defined below) for £74.0 million of the Sterling Series B Notes. The terms of the Sterling Series C Senior Notes are identical in all material respects to the Sterling Series B Senior Notes. As of February 28, 2006, the Company had outstanding £1.0 million (\$1.8 million) aggregate principal amount of Sterling Series B Senior Notes.

On May 15, 2000, the Company issued £80.0 million (\$120.0 million upon issuance) aggregate principal amount of 8½% Series C Senior Notes due November 2009 at an issuance price of £79.6 million (\$119.4 million upon issuance, net of \$0.6 million unamortized discount, with an effective interest rate of 8.6%) (the "Sterling Series C Senior Notes"). Interest on the Sterling Series C Senior Notes is payable semiannually on May 15 and November 15. As of February 28, 2006, the Company had outstanding £154.0 million (\$269.7 million, net of \$0.3 million unamortized discount) aggregate principal amount of Sterling Series C Senior Notes.

On February 21, 2001, the Company issued \$200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). Interest on the February 2001 Senior Notes is payable semi-annually on February 15 and August 15. In July 2001, the Company exchanged \$200.0 million aggregate principal amount of 8% Series B Senior Notes due February 2008 (the "February 2001 Series B Senior Notes") for all of the February 2001 Senior Notes. The terms of the February 2001 Series B Senior Notes. As of February 28, 2006, the Company had outstanding \$200.0 million aggregate principal amount of February 2001 Series B Senior Notes.

The senior notes described above are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount and a make whole payment based on the present value of the future payments at the adjusted Treasury rate or adjusted Gilt rate plus 50 basis points. The senior notes are unsecured senior obligations and rank equally in right of payment to all existing and future unsecured senior indebtedness of the Company. Certain of the Company's significant operating subsidiaries guarantee the senior notes, on a senior basis.

SENIOR SUBORDINATED NOTES – On March 4, 1999, the Company issued \$200.0 million aggregate principal amount of 8½% Senior Subordinated Notes due March 2009 ("Senior Subordinated Notes"). On March 11, 2004, the Senior Subordinated Notes were redeemed with proceeds from the revolving credit facility under the Company's then existing senior credit facility at 104.25% of par plus accrued interest. During the year ended February 28, 2005, in connection with this redemption, the Company recorded a charge of \$10.3 million in selling, general and administrative expenses for the call premium and the remaining unamortized financing fees associated with the original issuance of the Senior Subordinated Notes.

On January 23, 2002, the Company issued \$250.0 million aggregate principal amount of 8½% Senior Subordinated Notes due January 2012 ("January 2002 Senior

Subordinated Notes"). Interest on the January 2002 Senior Subordinated Notes is payable semiannually on January 15 and July 15. The January 2002 Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2007. The January 2002 Senior Subordinated Notes are unsecured and subordinated to the prior payment in full of all senior indebtedness of the Company, which includes the senior credit facility. The January 2002 Senior Subordinated Notes are guaranteed, on a senior subordinated basis, by certain of the Company's significant operating subsidiaries. As of February 28, 2006, the Company had outstanding \$250.0 million aggregate principal amount of January 2002 Senior Subordinated Notes.

TRUST INDENTURES - The Company's various Trust Indentures relating to the senior notes and senior subordinated notes contain certain covenants, including, but not limited to: (i) limitation on indebtedness; (ii) limitation on restricted payments; (iii) limitation on transactions with affiliates; (iv) limitation on senior subordinated indebtedness; (v) limitation on liens; (vi) limitation on sale of assets; (vii) limitation on issuance of guarantees of and pledges for indebtedness; (viii) restriction on transfer of assets; (ix) limitation on subsidiary capital stock; (x) limitation on dividends and other payment restrictions affecting subsidiaries; and (xi) restrictions on mergers, consolidations and the transfer of all or substantially all of the assets of the Company to another person. The limitation on indebtedness covenant is governed by a rolling four quarter fixed charge ratio requiring a specified minimum.

**DEBT PAYMENTS** – Principal payments required under long-term debt obligations (excluding unamortized discount of \$0.3 million) during the next five fiscal years and thereafter are as follows:

(in thousands)		
2007	\$	214,066
2008		253,506
2009		124,728
2010		405,030
2011		451,055
Thereafter	1	,281,803
	\$2	2,730,188

#### 10. INCOME TAXES:

Income before income taxes was generated as follows:

	For the Years Ended			
	February 28, February 28, February 29			
(in thousands)	2006	2005	2004	
Domestic	\$446,760	\$ 357,444	\$ 289,960	
Foreign	30,498	74,530	54,437	
	\$477,258	\$431,974	\$344,397	

The income tax provision consisted of the following:

	For the Years Ended			
<i>(' 1)</i>	February 28, February 28, February			
(in thousands)	2006	2005	2004	
Current:				
Federal	\$ 95,060	\$ 70,280	\$ 68,125	
State	18,918	15,041	13,698	
Foreign	7,902	21,915	14,116	
Total current	121,880	107,236	95,939	
Deferred:				
Federal	26,995	52,030	18,843	
State	5,133	4,507	6,180	
Foreign	(2,012)	(8,263)	3,021	
Total deferred	30,116	48,274	28,044	
Income tax provision	\$151,996	\$155,510	\$123,983	

The foreign provision for income taxes is based on foreign pretax earnings. Earnings of foreign subsidiaries would be subject to U.S. income taxation on repatriation to the U.S. The Company's consolidated financial statements provide for anticipated tax liabilities on amounts that may be repatriated.

Deferred tax assets and liabilities reflect the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income.

Significant components of deferred tax assets (liabilities) consist of the following:

(in thousands)	February 28, 2006	February 28, 2005
Deferred tax assets:		
Employee benefits	\$ 44,225	\$ 32,988
Inventory	42,951	89,339
Net operating losses	34,095	37,846
Foreign tax credit	7,241	13,397
Insurance accruals	6,348	5,190
Unrealized foreign exchange	_	21,006
Other accruals	34,343	20,628
Gross deferred tax assets	169,203	220,394
Valuation allowances	(3,497)	(4,628)
Deferred tax assets, net	165,706	215,766
Deferred tax liabilities:		
Intangible assets	(238,876)	(240,766)
Property, plant and equipment	(157,717)	(165,625)
Investment in equity method		
investees	(24,444)	(53,760)
Unrealized foreign exchange	(5,890)	_
Derivative instruments	(4,937)	(27,250)
Provision for unremitted earnings	(981)	(4,892)
Total deferred tax liabilities	(432,845)	(492,293)
Deferred tax liabilities, net	(267,139)	(276,527)
Less: Current deferred tax assets	88,345	98,744
Long-term deferred assets	15,824	21,808
Current deferred tax liability	(62)	(7,193)
Long-term deferred tax liabilities, net	\$(371,246)	\$(389,886)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. Management considers the reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of any valuation allowances.

Operating loss carryforwards totaling \$112.3 million at February 28, 2006, are being carried forward in a number of U.S. and foreign jurisdictions where the Company is permitted to use tax operating losses from prior periods to reduce future taxable income. Of these operating loss carryforwards, \$2.3 million will expire in 2024 and \$110.0 million of operating losses in foreign jurisdictions may be carried forward indefinitely. In addition, certain tax credits generated of \$7.2 million are available to offset future income taxes. These credits will expire, if not utilized, in 2014 through 2015.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. For the year ended February 28, 2006, the Company repatriated \$95.7 million of earnings under the provisions of the AJCA. Deferred taxes had previously been provided for a portion of the dividends remitted. The reversal of deferred taxes offset the tax costs to repatriate the earnings and the Company recorded a net benefit of \$6.8 million.

The AJCA also provides relief to U.S. domestic manufacturers by providing a tax deduction related to "qualified production income," which will be phased in over five years. In accordance with FASB Staff Position No. FAS 109-1 ("FSP FAS 109-1"), "Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," the Company will recognize these benefits in the period in which the deduction is claimed. The tax benefit for the year ended February 28, 2006, was \$2.0 million.

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, the Company provides for additional tax expense based on probable outcomes of such matters. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes the reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require use of cash. Favorable resolution would be recognized as a reduction to the effective tax rate in the year of resolution. During the year ended February 28, 2006, various federal, state, and international examinations were finalized. A tax benefit of \$16.2 million was recorded primarily related to the resolution of certain tax positions in connection with those examinations.

A reconciliation of the total tax provision to the amount computed by applying the statutory U.S. Federal income tax rate to income before provision for income taxes is as follows:

	For the Years Ended					
	February 28, 2006		February 28, 2005		February 29, 2004	
		% of		% of		% of
		Pretax		Pretax		Pretax
(in thousands)	Amount	Income	Amount	Income	Amount	Income
Income tax provision at statutory rate	\$167,040	35.0	\$151,191	35.0	\$120,521	35.0
State and local income taxes, net of federal income tax benefit	15,634	3.3	12,706	2.9	13,032	3.8
Earnings of subsidiaries taxed at other than U.S. statutory rate	(20,691)	(4.3)	(5,024)	(1.1)	(12,170)	(3.5)
Resolution of certain tax positions	(16,208)	(3.4)	-	_	_	_
Miscellaneous items, net	6,221	1.2	(3,363)	(8.0)	2,600	0.7
	\$151,996	31.8	\$155,510	36.0	\$123,983	36.0

The effect of earnings of foreign subsidiaries includes the difference between the U.S. statutory rate and local jurisdiction tax rates, as well as the (benefit) provision for incremental U.S. taxes on unremitted earnings of foreign subsidiaries offset by foreign tax credits and other foreign adjustments.

# 11. OTHER LIABILITIES:

The major components of other liabilities are as follows:

(in thousands)	February 28, 2006	February 28, 2005
Adverse grape contracts (Note 14)	\$ 64,569	\$145,958
Accrued pension liability	122,141	85,584
Other	53,587	60,037
	\$240,297	\$291,579

# 12. PROFIT SHARING AND RETIREMENT SAVINGS PLANS:

The Company's retirement and profit sharing plan, the Constellation Brands, Inc. 401(k) and Profit Sharing Plan (the "Plan"), covers substantially all U.S. employees, excluding those employees covered by collective bargaining agreements. The 401(k) portion of the Plan permits eligible employees to defer a portion of their compensation (as defined in the Plan) on a pretax basis. Participants may defer up to 50% of their compensation for the year, subject to limitations of the Plan. The Company makes a matching contribution of 50% of the first 6% of compensation a participant defers. The amount of the Company's contribution under the profit sharing portion of the Plan is a discretionary amount as determined by the Board of Directors on an annual basis, subject to limitations of the Plan. Company contributions under the Plan were \$15.9 million, \$13.0 million, and \$11.6 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively.

During the year ended February 29, 2004, in connection with the Hardy Acquisition, the Company acquired the BRL Hardy Superannuation Fund (now known as the Hardy Wine Company Superannuation Plan) (the "Hardy Plan") which covers substantially all salaried Australian employees. The Hardy Plan has a defined benefit component and a defined contribution component. The Company also has a

statutory obligation to provide a minimum defined contribution on behalf of any Australian employees who are not covered by the Hardy Plan. In addition, during the year ended February 29, 2004, the Company instituted a defined contribution plan that covers substantially all of its U.K. employees. Lastly, the Company has a defined contribution plan that covers certain of its Canadian employees. Company contributions under the defined contribution component of the Hardy Plan, the Australian statutory obligation, the U.K. defined contribution plan and the Canadian defined contribution plan aggregated \$8.2 million, \$7.0 million, and \$7.2 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively.

The Company also has defined benefit pension plans that cover certain of its non-U.S. employees. These consist of a Canadian plan, an U.K. plan and the defined benefit component of the Hardy Plan. For the year ended February 28, 2006, the Company's net periodic benefit cost includes \$6.4 million of recognized net actuarial loss due to an adjustment in the Company's U.K. plan. Of this amount, \$2.7 million represents current year expense. During the year ended February 28, 2005, an amendment to the Canadian plan modifying pension benefits increased the pension benefit obligation by \$0.9 million. During the year ended February 29, 2004, the Company ceased future accruals for active employees under its U.K. plan. There were no curtailment charges arising from this event. The Company uses a December 31 measurement date for all of its plans. Net periodic benefit cost reported in the Consolidated Statements of Income for these plans includes the following components:

	For the Years Ended		
(in thousands)	February 28, 2006	February 28, 2005	February 29, 2004
Service cost	\$ 2,149	\$ 2,117	\$ 2,202
Interest cost	17,260	16,391	14,471
Expected return on plan assets	(16,458)	(17,250)	(15,155)
Amortization of prior service cost	199	9	9
Recognized net actuarial loss	9,360	2,530	2,019
Net periodic benefit cost	\$12,510	\$ 3,797	\$ 3,546

The following table summarizes the funded status of the Company's defined benefit pension plans and the related amounts included in the Consolidated Balance Sheets:

	February 28,	February 28,
(in thousands)	2006	2005
Change in benefit obligation:	¢ 240 000	<b>#201</b> 600
Benefit obligation as of March 1	\$ 349,090	\$301,608
Service cost	2,149	2,117
Interest cost	17,260	16,391
Plan participants' contributions	166	84
Actuarial loss	62,194	29,939
Plan amendment	(11.803)	(10.760)
Benefits paid	(11,893)	(12,769)
Foreign currency exchange rate changes	(25,837)	10,836
Benefit obligation as of the		
last day of February	\$ 393,167	\$349,090
Change in plan assets:		
Fair value of plan assets as of March 1	\$ 253,657	\$236,314
Actual return on plan assets	30,411	19,092
Plan participants' contributions	166	84
Employer contribution	5,602	3,186
Benefits paid	(11,893)	(12,769)
Foreign currency exchange rate changes	(18,506)	7,750
Fair value of plan assets as of	(10,500)	7,700
the last day of February	\$ 259,437	\$253,657
Funded status of the plan as of the last day of February:		
Funded status	\$(133,730)	\$ (95,433)
Employer contributions from	+ (===,===,	+ (,,
measurement date to fiscal year end	768	759
Unrecognized prior service cost	836	927
Unrecognized actuarial loss	152,420	123,277
Net amount recognized	\$ 20,294	\$ 29,530
Amounts recognized in the Consolidated Balance Sheets		
consist of:		
Prepaid benefit cost	\$ 827	\$ 555
Accrued benefit liability	(122,141)	(85,584)
Intangible asset	836	927
Deferred tax asset	42,458	34,210
Accumulated other comprehensive loss	98,314	79,422
Net amount recognized	\$ 20,294	\$ 29,530

As of February 28, 2006, and February 28, 2005, the accumulated benefit obligation for all defined benefit pension plans was \$379.7 million and \$337.9 million, respectively. The following table summarizes the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for those pension plans with an accumulated benefit obligation in excess of plan assets:

(in thousands)	February 28, 2006	February 28, 2005
Projected benefit obligation	\$376,467	\$ 332,952
Accumulated benefit obligation	\$363,015	\$ 321,963
Fair value of plan assets	\$240,313	\$ 236,145

The increase in minimum pension liability included in AOCI for the years ended February 28, 2006, and February 28, 2005, was \$18.9 million and \$21.2 million, respectively.

The following table sets forth the weighted average assumptions used in developing the net periodic pension expense:

	For the Years Ended	
	February 28, 2006	February 28, 2005
Rate of return on plan assets	7.09%	7.50%
Discount rate	5.42%	5.79%
Rate of compensation increase	3.77%	3.94%

The following table sets forth the weighted average assumptions used in developing the benefit obligation:

	February 28, 2006	February 28, 2005
Discount rate	4.72%	5.41%
Rate of compensation increase	3.95%	3.76%

The Company's weighted average expected long-term rate of return on plan assets is 7.09%. The Company considers the historical level of long-term returns and the current level of expected long-term returns for each asset class, as well as the current and expected allocation of assets when developing its expected long-term rate of return on assets assumption. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the Company's portfolios.

The following table sets forth the weighted average asset allocations by asset category:

	February 28, 2006	February 28, 2005
Asset Category:		
Equity securities	35.7%	33.1%
Debt securities	33.4%	38.0%
Real estate	0.5%	0.5%
Other	30.4%	28.4%
Total	100.0%	100.0%

For each of its Canadian, U.K. and Australian defined benefit plans, the Company employs an investment return approach whereby a mix of equities and fixed income investments are used (on a plan by plan basis) to maximize the long-term rate of return on plan assets for a prudent level of risk. From time to time, the Company will target asset allocation on a plan by plan basis to enhance total return while balancing risks. The established weighted average target allocations across all of the Company's plans are approximately 37% equity securities, 20% fixed income securities, 4% real estate and 39% other. The other component results primarily from investments held by the Company's U.K. plan and consists primarily of U.K. hedge funds which have characteristics of both equity and fixed income securities. Risk tolerance is established separately for each plan through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The individual investment portfolios contain a diversified blend of equity and fixed-income investments. Equity investments are diversified across each plan's local jurisdiction stocks as well as international stocks, and across multiple asset classifications, including growth, value, and large and small capitalizations. Investment risk is measured and monitored for each plan separately on an ongoing basis through periodic investment portfolio reviews and annual liability measures.

The Company expects to contribute \$11.5 million to its pension plans during the year ended February 28, 2007.

Benefit payments, which reflect expected future service, as appropriate, expected to be paid during the next ten fiscal years are as follows:

(in thousands)	
2007	\$11,632
2008	\$11,808
2009	\$15,397
2010	\$14,229
2011	\$15,957
2012 – 2016	\$93,652

## 13. POSTRETIREMENT BENEFITS:

The Company currently sponsors multiple unfunded postretirement benefit plans for certain of its Constellation Beers and Spirits segment employees. During the year ended February 28, 2005, amendments to two of the unfunded postretirement benefit plans, one modifying retiree contributions and the other modifying eligibility requirements and retiree contributions, decreased the postretirement benefit obligation by \$0.4 million. During the year ended February 29, 2004, an amendment to one of the unfunded postretirement benefit plans modifying the eligibility requirements and retiree contributions decreased the postretirement benefit obligation by \$0.6 million. The Company uses a December 31 measurement date for all of its plans. The status of the plans is as follows:

(in thousands)	February 28, <b>2006</b>	February 28, 2005
Change in benefit obligation:		
Benefit obligation as of March 1	\$ 4,989	\$ 5,460
Service cost	186	158
Interest cost	264	275
Benefits paid	(174)	(186)
Plan amendment	(8)	(383)
Actuarial loss (gain)	72	(499)
Foreign currency exchange rate changes	231	164
Benefit obligation as of		-
the last day of February	\$ 5,560	\$ 4,989
Funded status as of the last day of February:		
Funded status	\$(5,560)	\$(4,989)
Unrecognized prior service cost	(618)	(666)
Unrecognized net loss	567	461
Accrued benefit liability	\$(5,611)	\$(5,194)

Net periodic benefit cost reported in the Consolidated Statements of Income includes the following components:

	For the Years Ended			
(in thousands)	February 28, 2006	February 28, 2005	February 29, 2004	
Service cost	\$ 186	\$158	\$147	
Interest cost	264	275	282	
Amortization of prior service cost	(54)	(21)	7	
Recognized net	49	15	19	
actuarial gain (loss)				
Net periodic benefit cost	\$ 445	\$427	\$455	

The following table sets forth the weighted average assumptions used in developing the benefit obligation:

	February 28, 2006	February 28, 2005
Discount rate	4.97%	5.86%
Rate of compensation increase	3.50%	3.50%

The following table sets forth the weighted average assumptions used in developing the net periodic non-pension postretirement:

	For the Years Ended		
	February 28, February 28		
	2006	2005	
Discount rate	5.95%	6.00%	
Rate of compensation increase	3.50%	3.50%	

The following table sets forth the assumed health care cost trend rates as of February 28, 2006, and February 28, 2005	The following table sets forth	the assumed health care cost trend	l rates as of February 28	8, 2006, and February 28, 2	2005:
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	February 28, 2006		February 28, 2005	
	Non-U.S.			Non-U.S.
	U.S. Plan	Plan	U.S. Plan	Plan
Health care cost trend rate assumed for next year	10.0%	8.8%	9.0%	9.7%
Rate to which the cost trend rate is assumed to				
decline to (the ultimate trend rate)	3.5%	4.7%	4.0%	4.7%
Year that the rate reaches the ultimate trend rate	2011	2011	2010	2011

Assumed health care trend rates could have a significant effect on the amount reported for health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

(in thousands)	1% Increase	1% Decrease
Effect on total service and interest cost components	\$ 62	\$ (52)
Effect on postretirement benefit obligation	\$649	\$ (552)

Benefit payments, which reflect expected future service, as appropriate, expected to be paid during the next ten fiscal years are as follows:

(in thousands)		
2007	\$	291
2008	\$	306
2009	\$	161
2010	\$	158
2011	\$	158
2012 – 2016	\$2	2,387

# 14. COMMITMENTS AND CONTINGENCIES:

*OPERATING LEASES* – Step rent provisions, escalation clauses, capital improvement funding and other lease concessions, when present in the Company's leases, are taken into account in computing the minimum lease payments. The minimum lease payments for the Company's operating leases are recognized on a straight-line basis over the minimum lease term. Future payments under noncancelable operating leases having initial or remaining terms of one year or more are as follows during the next five fiscal years and thereafter:

(in thousands)	
2007	\$ 65,586
2008	49,601
2009	47,417
2010	42,110
2011	29,381
Thereafter	223,282
	\$ 457,377

Rental expense was \$69.5 million, \$47.4 million, and \$41.0 million for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively.

#### **PURCHASE COMMITMENTS AND CONTINGENCIES - The**

Company has agreements with suppliers to purchase various spirits of which certain agreements are denominated in British pound sterling. The maximum future obligation under these agreements, based upon exchange rates at February 28, 2006, aggregate \$26.1 million for contracts expiring through December 2012.

All of the Company's imported beer products are marketed and sold pursuant to exclusive distribution agreements from the suppliers of these products. The Company's agreement to distribute Corona Extra and its other Mexican beer brands exclusively throughout 25 primarily western U.S. states expires in December 2006, with automatic five year renewals thereafter, subject to compliance with certain performance criteria and other terms under the agreement. The remaining agreements expire through December 2011. Prior to their expiration, these agreements may be terminated if the Company fails to meet certain performance criteria. At February 28, 2006, the Company believes it is in compliance with all of its material distribution agreements and, given the Company's long-term relationships with its suppliers, the Company does not believe that these agreements will be terminated.

In connection with previous acquisitions as well as with the Hardy Acquisition and Robert Mondavi acquisition, the Company has assumed grape purchase contracts with certain growers and suppliers. In addition, the Company has entered into other grape purchase contracts with various growers and suppliers in the normal course of business. Under the grape purchase contracts, the Company is committed to purchase all grape production yielded from a specified number of acres for a period of time from one to sixteen years. The actual tonnage and price of grapes that must be purchased by the Company will vary each year depending on certain factors, including weather, time of harvest, overall market conditions and the agricultural practices and location of the growers and suppliers under contract. The Company purchased \$491.8 million and \$368.4 million of grapes under contracts during the years ended February 28, 2006, and February 28, 2005, respectively. Based on current production yields and published grape prices, the Company estimates that the aggregate purchases under these contracts over the remaining terms of the contracts will be \$1,920.9 million.

In connection with previous acquisitions as well as with the Hardy Acquisition and Robert Mondavi acquisition, the Company established a liability for the estimated loss on firm purchase commitments assumed at the time of acquisition. As of February 28, 2006, the remaining balance on this liability is \$123.6 million.

The Company's aggregate obligations under bulk wine purchase contracts will be \$82.5 million over the remaining terms of the contracts which extend through fiscal 2014.

In connection with the Hardy Acquisition, the Company assumed certain processing contracts which commit the Company to utilize outside services to process and/or package a minimum volume quantity. In addition, the Company entered into a new processing contract during the year ended February 29, 2004, utilizing outside services to process a minimum volume of brandy at prices which are dependent on the processing ingredients provided by the Company. The Company's aggregate obligations under these processing contracts will be \$76.3 million over the remaining terms of the contracts which extend through December 2014.

**EMPLOYMENT CONTRACTS** – The Company has employment contracts with certain of its executive officers and certain other management personnel with either automatic one year renewals or an indefinite term of employment unless terminated by either party. These employment contracts provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. These employment contracts also provide for severance payments in the event of specified termination of employment. In addition, the Company has employment arrangements with certain other management personnel which provide for severance payments in the event of specified termination of employment. As of February 28, 2006, the aggregate commitment for future compensation and severance, excluding incentive bonuses, was \$8.2 million, none of which was accruable at that date.

**EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREE- MENTS** – Approximately 27.5% of the Company's full-time employees are covered by collective bargaining agreements at February 28, 2006. Agreements expiring within one year cover approximately 17.5% of the Company's full-time employees.

**LEGAL MATTERS** – In the course of its business, the Company is subject to litigation from time to time. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

# 15. STOCKHOLDERS' EQUITY:

**COMMON STOCK** – The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. Class B Convertible Common Stock shares are convertible into shares of Class A Common Stock on a one-to-one basis at any time at the option of the holder. Holders of Class B Convertible Common Stock are entitled

to ten votes per share. Holders of Class A Common Stock are entitled to one vote per share and a cash dividend premium. If the Company pays a cash dividend on Class B Convertible Common Stock, each share of Class A Common Stock will receive an amount at least ten percent greater than the amount of the cash dividend per share paid on Class B Convertible Common Stock. In addition, the Board of Directors may declare and pay a dividend on Class A Common Stock without paying any dividend on Class B Convertible Common Stock. However, under the terms of the Company's senior credit facility, the Company is currently constrained from paying cash dividends on its common stock. In addition, the indentures for the Company's outstanding senior notes and senior subordinated notes may restrict the payment of cash dividends on its common stock under certain circumstances.

In July 2005, the stockholders of the Company approved an increase in the number of authorized shares of Class A Common Stock from 275,000,000 shares to 300,000,000 shares, thereby increasing the aggregate number of authorized shares of the Company's common and preferred stock to 331,000,000 shares.

At February 28, 2006, there were 199,177,164 shares of Class A Common Stock and 23,857,338 shares of Class B Convertible Common Stock outstanding, net of treasury stock.

**COMMON STOCK SPLITS** – During May 2005, two-for-one stock splits of the Company's Class A Common Stock and Class B Convertible Common Stock were distributed in the form of stock dividends to stockholders of record on April 29, 2005. All share and per share amounts have been retroactively restated to give effect to the common stock splits.

STOCK REPURCHASE AUTHORIZATION – In February 2006, the Company's Board of Directors replenished the June 1998 authorization to repurchase up to \$100.0 million of the Company's Class A Common Stock and Class B Convertible Common Stock. The Company may finance such purchases, which will become treasury shares, through cash generated from operations or through the senior credit facility. No shares were repurchased under this program during the years ended February 28, 2006, February 28, 2005, and February 29, 2004.

PREFERRED STOCK - During the year ended February 29, 2004, the Company issued 5.75% Series A Mandatory Convertible Preferred Stock ("Preferred Stock") (see "Equity Offerings" discussion below). Dividends are cumulative and payable quarterly, if declared, in cash, shares of the Company's Class A Common Stock, or a combination thereof, at the discretion of the Company. Dividends are payable, if declared, on the first business day of March, June, September, and December of each year, commencing on December 1, 2003. On September 1, 2006, the automatic conversion date, each share of Preferred Stock will automatically convert into, subject to certain anti-dilution adjustments, between 58.552 and 71.432 shares of the

Company's Class A Common Stock, depending on the then applicable market price of the Company's Class A Common Stock, in accordance with the following table:

Applicable market price	Conversion rate
Less than or equal to \$14.00	71.432 shares
Between \$14.00 and \$17.08	71.432 to 58.552 shares
Equal to or greater than \$17.08	58.552 shares

The applicable market price is the average of the closing prices per share of the Company's Class A Common Stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the applicable conversion date. At any time prior to September 1, 2006, holders may elect to convert each share of Preferred Stock, subject to certain anti-dilution adjustments, into 58.552 shares of the Company's Class A Common Stock. If the closing market price of the Company's Class A Common Stock exceeds \$25.62 for at least 20 trading days within a period of 30 consecutive trading days, the Company may elect, subject to certain limitations and anti-dilution adjustments, to cause the conversion of all, but not less than all, of the then outstanding shares of Preferred Stock into shares of the Company's Class A Common Stock at a conversion rate of 58.552 shares of the Company's Class A Common Stock. In order for the Company to cause the early conversion of the Preferred Stock, the Company must pay all accrued and unpaid dividends on the Preferred Stock as well as the present value of all remaining dividend payments through and including September 1, 2006. If the Company is involved in a merger in which at least 30% of the consideration for all or any class of the Company's common stock consists of cash or cash equivalents, then on or after the date of such merger, each holder will have the right to convert each share of Preferred Stock into the number of shares of the Company's Class A Common Stock applicable on the automatic conversion date. The Preferred Stock ranks senior in right of payment to all of the Company's common stock and has a liquidation preference of \$1,000 per share, plus accrued and unpaid dividends.

As of February 28, 2006, 170,500 shares of Preferred Stock were outstanding and \$2.5 million of dividends were accrued.

**EQUITY OFFERINGS** – During July 2003, the Company completed a public offering of 19,600,000 shares of its Class A Common Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$261.2 million. In addition, the Company also completed

a public offering of 170,500 shares of its 5.75% Series A Mandatory Convertible Preferred Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$164.9 million. The Class A Common Stock offering and the Preferred Stock offering are referred to together as the "2003 Equity Offerings." The majority of the net proceeds from the 2003 Equity Offerings were used to repay the Company's then existing bridge loans that were incurred to partially finance the Hardy Acquisition. The remaining proceeds were used to repay term loan borrowings under the Company's then existing senior credit facility.

LONG-TERM STOCK INCENTIVE PLAN - Under the Company's Long-Term Stock Incentive Plan, nonqualified stock options, stock appreciation rights, restricted stock and other stockbased awards may be granted to employees, officers and directors of the Company. The aggregate number of shares of the Company's Class A Common Stock available for awards under the Company's Long-Term Stock Incentive Plan is 80,000,000 shares. The exercise price, vesting period and term of nonqualified stock options granted are established by the committee administering the plan (the "Committee"). The exercise price of any nonqualified stock option may not be less than the fair market value of the Company's Class A Common Stock on the date of grant. Grants of stock appreciation rights, restricted stock and other stock-based awards may contain such vesting, terms, conditions and other requirements as the Committee may establish. During the years ended February 28, 2006, February 28, 2005, and February 29, 2004, no stock appreciation rights were granted. During the year ended February 28, 2006, 7,150 shares of restricted Class A Common Stock were granted at a grant date fair value of \$27.96 per share. During the year ended February 28, 2005, 5,330 shares of restricted Class A Common Stock were granted at a grant date fair value of \$18.86 per share. No restricted stock was granted during the year ended February 29, 2004.

INCENTIVE STOCK OPTION PLAN – Under the Company's Incentive Stock Option Plan, incentive stock options may be granted to employees, including officers, of the Company. Grants, in the aggregate, may not exceed 8,000,000 shares of the Company's Class A Common Stock. The exercise price of any incentive stock option may not be less than the fair market value of the Company's Class A Common Stock on the date of grant. The vesting period and term of incentive stock options granted are established by the Committee. The maximum term of incentive stock options is ten years.

A summary of stock option activity under the Company's Long-Term Stock Incentive Plan and the Incentive Stock Option Plan is as follows:

	Shares	Weighted Average		Weighted Average
	Under	Exercise	Options	Exercise
	Option	Price	Exercisable	Price
Balance, February 28, 2003	22,815,862	\$ 7.78	16,691,710	\$ 6.79
Options granted	5,632,714	\$ 11.93		
Options exercised	(5,224,622)	\$ 6.94		
Options forfeited/canceled	(649,008)	\$ 12.80		
Balance, February 29, 2004	22,574,946	\$ 8.86	17,642,596	\$ 7.90
Options granted	6,826,050	\$ 18.31		
Options exercised	(5,421,978)	\$ 8.93		
Options forfeited/canceled	(378,268)	\$ 15.10		
Balance, February 28, 2005	23,600,750	\$ 11.48	20,733,345	\$ 10.45
Options granted	3,952,825	\$ 27.24		
Options exercised	(3,662,997)	\$ 8.56		
Options forfeited/canceled	(237,620)	\$ 24.62		
Balance, February 28, 2006	23,652,958	\$14.43	23,149,228	\$14.43

The following table summarizes information about stock options outstanding at February 28, 2006:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractural Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 2.13 - \$ 8.87	6,795,179	3.6 years	\$ 6.83	6,795,179	\$ 6.83	
\$10.67 - \$15.51	7,333,468	6.5 years	\$ 11.67	6,945,648	\$11.66	
\$16.19 – \$23.23	5,531,186	8.3 years	\$ 18.29	5,465,786	\$18.27	
\$24.73 – \$30.52	3,993,125	9.1 years	\$ 27.12	3,942,615	\$27.11	
	23,652,958	6.5 years	\$ 14.43	23,149,228	\$14.43	

The weighted average fair value of options granted during the years ended February 28, 2006, February 28, 2005, and February 29, 2004, was \$9.55, \$7.20, and \$4.87, respectively. The fair value of options is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 4.1%, 3.6%, and 3.2% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively; volatility of 31.3%, 33.6%, and 35.7% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively; and expected option life of 5.0 years, 6.0 years, and 6.2 years for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively. The dividend yield was 0% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004. Forfeitures are recognized as they occur.

EMPLOYEE STOCK PURCHASE PLANS – The Company has a stock purchase plan under which 9,000,000 shares of Class A Common Stock may be issued. Under the terms of the plan, eligible employees may purchase shares of the Company's Class A Common Stock through payroll deductions. The purchase price is the lower of 85% of the fair market value of the stock on the first or last day of the purchase period. During the years ended February 28, 2006, February 28, 2005, and February 29, 2004, employees purchased 249,507, 274,106, and 275,970 shares, respectively.

The weighted average fair value of purchase rights granted during the years ended February 28, 2006, February 28, 2005, and February 29, 2004, was \$6.23, \$4.98, and \$3.30, respectively. The fair value of purchase rights is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 4.2%, 2.2%, and 1.0% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively; volatility of 27.2%, 24.5%, and 22.3% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively; and expected purchase right life of 0.5 years for the years ended February 28, 2006, February 28, 2005, and February 29, 2004. The dividend yield was 0% for the years ended February 28, 2006, February 28, 2005, and February 29, 2004.

The Company has a stock purchase plan under which 2,000,000 shares of the Company's Class A Common Stock may be issued to eligible employees and directors of the Company's U.K. subsidiaries. Under the terms of the plan, participants may purchase shares of the Company's Class A Common Stock through payroll deductions. The purchase price may be no less than 80% of the closing price of the stock on the day the purchase price is fixed by the committee administering the plan. During the years ended February 28, 2006, February 28, 2005, and February 29, 2004, employees purchased 92,622, 74,164, and 55,582 shares, respectively. During the years ended February 28, 2005, and February 29, 2004, there were no purchase rights granted.

#### 16. EARNINGS PER COMMON SHARE:

Earnings per common share are as follows:

	For the Years Ended					
(in thousands, except per share data)	Febr	uary 28, 2006	Febr	uary 28, 2005	Febru	uary 29, 2004
Net income	\$32	25,262	\$2	76,464	\$ 22	20,414
Dividends on preferred stock		(9,804)		(9,804)		(5,746)
Income available to common stockholders	\$31	15,458	\$ 26	56,660	\$21	4,668
Weighted average common sharesoutstanding – basic:						
Class A Common Stock	19	96,907	19	91,489	17	7,267
Class B Common Stock	2	23,904	4	24,043	2	24,137
Total weighted average common shares outstanding – basic	22	20,811	2	15,532	20	1,404
Stock options		7,913		7,545		6,628
Preferred stock		9,983		9,983		5,865
Weighted average common shares outstanding – diluted	23	38,707	23	33,060	21	.3,897
Earnings per common share – basic:						
Class A Common Stock	\$	1.44	\$	1.25	\$	1.08
Class B Common Stock	\$	1.31	\$	1.14	\$	.98
Earnings per common share – diluted	\$	1.36	\$	1.19	\$	1.03

Stock options to purchase 3.6 million, 1.6 million, and 0.2 million shares of Class A Common Stock at a weighted average price per share of \$27.30, \$23.27, and \$15.55 were outstanding during the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively, but were not included in the computation of the diluted earnings per common share because the stock options' exercise price was greater than the average market price of the Class A Common Stock for the respective periods.

#### 17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Accumulated other comprehensive loss, net of tax effects, includes the following components:

			Unrealized		
	Foreign	Net	Loss on	Minimum	Accumulated
	Currency	Unrealized	Marketable	Pension	Other
	Translation	Gains on	Equity	Liability	Comprehensive
(in thousands)	Adjustments	Derivatives	Securities	Adjustment	Income (Loss)
Balance, February 28, 2005	\$ 473,949	\$ 37,316	\$ -	\$ (79,422)	\$ 431,843
Current period change	(159,242)	(6,278)	(4)	(18,892)	(184,416)
Balance, February 28, 2006	\$314,707	\$31,038	\$ (4)	\$(98,314)	\$247,427

During the year ended February 28, 2006, the Company changed the structure of certain of its cash flow hedges of forecasted foreign currency denominated transactions. As a result, the Company received \$18.5 million in proceeds from the early termination of related foreign currency derivative instruments. As the forecasted transactions are still probable, this amount was recorded to AOCI and will be reclassified from AOCI into earnings in the same periods in which the original hedged items are recorded in the Consolidated Statements of Income. See Note 9 for discussion of \$30.3 million cash proceeds received from the early termination of interest rate swap agreements in March 2005.

# 18. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK:

Sales to the five largest customers represented 18.5%, 21.5%, and 20.6% of the Company's sales for the years ended February 28, 2006, February 28, 2005, and February 29,

2004, respectively. No single customer was responsible for greater than 10% of sales during these years. Accounts receivable from the Company's largest customer, Southern Wine and Spirits, represented 8.6%, 10.2%, and 8.3% of the Company's total accounts receivable as of February 28, 2006, February 28, 2005, and February 29, 2004, respectively. Sales to the Company's five largest customers are expected to continue to represent a significant portion of the Company's revenues. The Company's arrangements with certain of its customers may, generally, be terminated by either party with prior notice. The Company performs ongoing credit evaluations of its customers' financial position, and management of the Company is of the opinion that any risk of significant loss is reduced due to the diversity of customers and geographic sales area.

# 19. ACQUISITION-RELATED INTEGRATION COSTS:

For the year ended February 28, 2006, the Company recorded \$16.8 million of acquisition-related integration costs associated with the Company's decision to restructure and integrate the operations of Robert Mondavi (the "Robert Mondavi Plan"). Acquisition-related integration costs included \$5.3 million of employee-related costs and \$11.5 million of facilities and other one-time costs. For the year ended February 28, 2005, the Company recorded \$9.4 million of acquisition-related integration costs associated with the Robert Mondavi Plan.

# 20. RESTRUCTURING AND RELATED CHARGES:

For the year ended February 28, 2006, the Company recorded \$29.3 million of restructuring and related charges associated with (i) the further realignment of business operations as previously announced in Fiscal 2004, a component of the Fiscal 2004 Plan (as defined below), (ii) the Robert Mondavi Plan, and (iii) costs associated with the worldwide wine reorganization announced in February 2006 (including certain personnel reductions in the U.K. during the third quarter of fiscal 2006) and the Company's program to consolidate certain west coast production processes in the U.S. (collectively, the "Fiscal 2006 Plan"). Included in the \$29.3 million of restructuring and related charges incurred for the year ended February 28, 2006, is \$6.9 million of non-cash charges for stock-based compensation (which are excluded from the following table).

For the year ended February 28, 2006, restructuring and related charges recorded in connection with the Fiscal 2004 Plan included \$0.7 million of employee termination benefit costs and \$1.3 million of facility consolidation and relocation costs. Restructuring and related charges recorded in connection with the Robert Mondavi Plan included \$1.6 million of employee termination benefit costs, \$0.7 million of contract termination costs and \$0.5 million of facility consolidation and relocation costs. Restructuring and related charges recorded in connection with the Fiscal 2006 Plan included \$24.3 million of employee termination benefit costs and \$0.2 million of facility consolidation and relocation costs. In addition, in connection with the Fiscal 2006 Plan, the Company recorded (i) \$13.4 million of accelerated depreciation charges in connection with the Company's investment in new assets and reconfiguration of certain existing assets under the plan, which was recorded in cost of product sold, and (ii) \$0.1 million of other related costs which was recorded in selling, general and administrative expenses. For the year ended February 28, 2005, the Company recorded \$7.6 million of restructuring and related charges associated with (i) the further realignment of business operations as previously announced in Fiscal 2004, (ii) the Company's decision in Fiscal 2004 to exit the commodity concentrate product line in the U.S. (collectively, the "Fiscal 2004 Plan"), and the Robert Mondavi Plan. For the year ended February 29, 2004, the Company recorded \$31.1 million of restructuring and related charges

associated with the Fiscal 2004 Plan. In addition, in connection with the Company's decision to exit the commodity concentrate product line in the U.S., the Company recorded a write-down of concentrate inventory of \$16.8 million for the year ended February 29, 2004, which was recorded in cost of product sold.

The Company estimates that the Fiscal 2004 Plan will include (i) a total of \$10.2 million of employee termination benefit costs through February 28, 2007, of which \$10.2 million has been incurred through February 28, 2006, (ii) a total of \$19.2 million of contract termination costs through February 28, 2007, of which \$19.2 million has been incurred through February 28, 2006, and (iii) a total of \$4.6 million of facility consolidation and relocation costs through February 28, 2007, of which \$4.2 million has been incurred through February 28, 2006.

The Company estimates that the Robert Mondavi Plan will include (i) a total of \$2.6 million of employee termination benefit costs through February 28, 2007, of which \$2.6 million has been incurred through February 28, 2006, (ii) a total of \$1.1 million of contract termination costs through February 28, 2007, of which \$0.7 million has been incurred through February 28, 2006, and (iii) a total of \$0.5 million of facility consolidation and relocation costs through February 28, 2007, of which \$0.5 million has been incurred through February 28, 2006.

The Company estimates that the Fiscal 2006 Plan will include (i) a total of \$32.0 million of employee termination benefit costs through February 28, 2007, of which \$24.3 million has been incurred through February 28, 2006, (ii) a total of \$3.0 million of contract termination costs through February 28, 2007, none of which has been incurred through February 28, 2006, and (iii) a total of \$13.5 million of facility consolidation and relocation costs through February 28, 2007, of which \$0.2 million has been incurred through February 28, 2006. In addition, the Company expects to incur accelerated depreciation charges of \$20.4 million through February 28, 2007, of which \$13.4 million has been incurred through February 28, 2006. Amounts associated with the accelerated depreciation charges are recorded in cost of product sold in the Company's Consolidated Statements of Income. Lastly, the Company expects to incur other related costs of \$8.4 million through February 28, 2007, of which \$0.1 million has been incurred through February 28, 2006. Amounts associated with the other related costs will be recorded in selling, general and administrative expenses in the Company's Consolidated Statements of Income.

In connection with the Robert Mondavi acquisition, the Company accrued \$50.5 million of liabilities for exit costs as of the acquisition date. The Robert Mondavi acquisition line item in the table below reflects adjustments to the fair value of liabilities assumed in the acquisition. The balance of these purchase accounting accruals was \$8.1 million and \$37.6 million as of February 28, 2006, and February 28, 2005, respectively.

The following table illustrates the changes in the restructuring liability balance since February 28, 2005:

	Employee Termination Benefit	Contract Termination	Facility Consolidation/ Relocation	
(in thousands)	Costs	Costs	Costs	Total
Balance, February 28, 2005	\$ 15,270	\$ 23,204	\$ 743	\$ 39,217
Robert Mondavi acquisition	2,377	2,988	(556)	4,809
Restructuring charges	19,730	699	1,960	22,389
Cash expenditures	(20,629)	(18,588)	(1,563)	(40,780)
Foreign currency adjustments	(105)	(189)	(56)	(350)
Balance, February 28, 2006	\$16,643	\$ 8,114	\$ 528	\$25,285

# 21. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of February 28, 2006, and February 28, 2005, the condensed consolidating statements of income and cash flows for each of the three years in the period ended February 28, 2006, for the Company, the parent company, the combined subsidiaries of the Company which guarantee the Company's senior notes and senior subordinated notes ("Subsidiary Guarantors") and the combined subsidiaries of the Company which are not Subsidiary Guarantors, primarily Matthew Clark and Hardy and their subsidiaries, which are included in the Constellation Wines segment ("Subsidiary Nonguarantors").

The Subsidiary Guarantors are wholly owned and the guarantees are full, unconditional, joint and several obligations of each of the Subsidiary Guarantors. Separate financial statements for the Subsidiary Guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 and include the recently adopted accounting pronouncements described in Note 2. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances.

	Parent	Subsidiary	Subsidiary		
(in thousands)	Company	Guarantors	Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet at February 28, 2006					
Current assets:			<b>* 7 000</b>	•	<b>*</b> 10.070
Cash and cash investments	\$ 908	, , , , ,	. ,	\$ -	\$ 10,878
Accounts receivable, net	233,042	196,070	342,763	- (1.4.00.4)	771,875
Inventories	38,677	1,033,281	647,408	(14,934)	, . , .
Prepaid expenses and other	13,574	150,046	45,622	4,428	213,670
Intercompany receivable (payable)	136,376	(709,428)			
Total current assets	422,577	672,917	1,615,867	(10,506)	, ,
Property, plant and equipment, net	35,573	729,628	660,097		1,425,298
Investments in subsidiaries	5,197,047	1,785,287		(6,982,334)	_
Goodwill	_	1,325,046	868,537	_	2,193,583
Intangible assets, net		549,802	334,078	_	883,880
Other assets, net	24,899	118,295	53,744		196,938
Total assets	\$5,680,096	\$5,180,975	\$3,532,323	\$(6,992,840)	\$7,400,554
Current liabilities:					
Notes payable to banks	\$ 54,500		\$ 25,381	\$ -	\$ 79,881
Current maturities of long-term debt	200,065	4,600	9,401	_	214,066
Accounts payable	4,439	123,622	184,778	_	312,839
Accrued excise taxes	15,542	42,796	18,324	_	76,662
Other accrued expenses and liabilities	230,639	163,831	220,425	(283)	614,612
Total current liabilities	505,185	334,849	458,309	(283)	1,298,060
Long-term debt, less current maturities	2,485,539	12,769	17,472	_	2,515,780
Deferred income taxes	(12,840)		24,166	-	371,246
Other liabilities	5,413	70,294	164,590	_	240,297
Stockholders' equity:					
Preferred stock	2	_	_	_	2
Class A and Class B common stock	2,326	6,443	141,583	(148,026)	,
Additional paid-in capital	1,159,421	2,301,961	2,498,737		
Retained earnings	1,606,023	1,934,899	98,712	- , , -	, ,
Accumulated other comprehensive income (loss)	(44,657)	159,840	128,754	3,490	247,427
Treasury stock and other	(26,316)		_	_	(26,316)
Total stockholders' equity	2,696,799	4,403,143	2,867,786	(6,992,557)	2,975,171
Total liabilities and stockholders' equity	\$5,680,096	\$5,180,975	\$3,532,323	\$(6,992,840)	\$7,400,554

(in thousands)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Balance Sheet at February 28, 2005					
Current assets:					
Cash and cash investments	\$ -	\$ 10,095	\$ 7,540	\$ -	\$ 17,635
Accounts receivable, net	132,997	293,588	423,057	_	849,642
Inventories	35,719	943,711	637,556	(9,251)	1,607,735
Prepaid expenses and other	41,515	163,910	53,598	_	259,023
Intercompany receivable (payable)	450,781	(1,111,951)	661,170	_	_
Total current assets	661,012	299,353	1,782,921	(9,251)	2,734,035
Property, plant and equipment, net	37,476	884,690	674,201	_	1,596,367
Investments in subsidiaries	4,961,521	1,844,354	_	(6,805,875)	_
Goodwill	-	1,242,132	940,537	_	2,182,669
Intangible assets, net	_	587,075	358,575	_	945,650
Other assets, net	28,559	221,642	95,250	_	345,451
Total assets	\$5,688,568	\$5,079,246	\$3,851,484	\$ (6,815,126)	\$7,804,172
Current liabilities:					
Notes payable to banks	\$ 14,000	\$ -	\$ 2,475	\$ -	\$ 16,475
Current maturities of long-term debt	60,068	4,307	3,719	_	68,094
Accounts payable	4,237	146,116	194,901	_	345,254
Accrued excise taxes	13,633	41,070	19,653	_	74,356
Other accrued expenses and liabilities	146,837	191,438	298,529	(2,896)	633,908
Total current liabilities	238,775	382,931	519,277	(2,896)	1,138,087
Long-term debt, less current maturities	3,167,852	9,089	27,766	_	3,204,707
Deferred income taxes	(17,255)	377,423	29,718	_	389,886
Other liabilities	1,101	126,173	164,305	_	291,579
Stockholders' equity:					
Preferred stock	2	_	_	_	2
Class A and Class B common stock	2,288	6,443	141,583	(148,026)	2,288
Additional paid-in capital	1,097,177	2,301,961	2,498,737	(4,800,698)	1,097,177
Retained earnings	1,285,762	1,715,182	141,969	(1,866,060)	1,276,853
Accumulated other comprehensive income (loss)	(58,884)	160,044	328,129	2,554	431,843
Treasury stock and other	(28,250)	_	_	_	(28,250)
Total stockholders' equity	2,298,095	4,183,630	3,110,418	(6,812,230)	2,779,913
Total liabilities and stockholders' equity	\$5,688,568	\$5,079,246	\$3,851,484	\$ (6,815,126)	\$7,804,172

		Parent	Subsidiary	Subsidiary		
(in thousands)		Company	Guarantors	Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Statement of Income						
for the Year Ended February 28, 2006		200 576	40.006.110	* 0 610 000	t/1 010 761\ d	
Sales					\$(1,213,761) \$	
Less – excise taxes		(166,757)	(438,498)	(498,222)		(1,103,477)
Net sales		,133,819	2,567,620	2,115,770	(1,213,761)	
Cost of product sold			(1,834,659)			(3,278,859)
Gross profit Selling, general and administrative expenses		222,702 (175,226)	732,961 (233,607)	375,874 (203,571)	(6,948) –	1,324,589 (612,404)
Acquisition-related integration costs		(1/3,220)	(15,668)	(1,120)	_	(16,788)
Restructuring and related charges		(1,692)	(11,583)	(16,007)	_	(29,282)
Operating income		45,784	472,103	155,176	(6,948)	666,115
Gain on change in fair value of derivative instruments		45,764	4/2,103	155,176	(0,946)	000,115
Equity in earnings of equity method investees		298,889	72,107	(4,263)	(365,908)	825
Interest income (expense), net		(28,464)	(194,123)	32,905	(303,300)	(189,682)
Income before income taxes		316,209	350,087	183,818	(372,856)	477,258
Benefit from (provision for) income taxes		13,856	(109,801)	(58,195)	2,144	(151,996)
Net income		330,065	240,286	125,623	(370,712)	325,262
Dividends on preferred stock		(9,804)			-	(9,804)
Income available to common stockholders	\$		\$ 240,286	\$ 125,623	\$ (370,712) \$	
Condensed Consolidating Statement of Income		· ·	. ,			,
for the Year Ended February 28, 2005						
Sales	\$	823,873	\$ 2,585,660	\$ 2,563,199	\$ (832,869) \$	5,139,863
Less – excise taxes		(148,269)	(435,984)	(467,972)	_	(1,052,225)
Net sales		675,604	2,149,676	2,095,227	(832,869)	4,087,638
Cost of product sold		(547,882)	(1,502,234)	(1,724,195)	827,262	(2,947,049)
Gross profit		127,722	647,442	371,032	(5,607)	1,140,589
Selling, general and administrative expenses		(155,687)	(217,967)	(182,040)	-	(555,694)
Acquisition-related integration costs		-	(9,421)	_	-	(9,421)
Restructuring charges		_	(4,203)	(3,375)	_	(7,578)
Operating (loss) income		(27,965)	415,851	185,617	(5,607)	567,896
Gain on change in fair value of derivative instruments		-	_	_	_	_
Equity in earnings of equity method investees		282,858	107,970	(115)	(388,960)	1,753
Interest income (expense), net		21,425	(125,226)	(33,874)	_	(137,675)
Income before income taxes		276,318	398,595	151,628	(394,567)	431,974
Benefit from (provision for) income taxes		1,683	(114,797)	(46,467)	4,071	(155,510)
Net income		278,001	283,798	105,161	(390,496)	276,464
Dividends on preferred stock	Φ.	(9,804)			- (200 406) f	(9,804)
Income available to common stockholders	\$	268,197	\$ 283,798	\$ 105,161	\$ (390,496) \$	266,660
Condensed Consolidating Statement of Income for the Year Ended February 29, 2004						
Sales	\$	81/1 0/12	\$ 2,276,747	\$ 1,866,165,9	\$ (487,684) \$	1 169 270
Less – excise taxes	Ψ	(143,964)	(417,130)	(355,747)	φ (407,004) φ -	(916,841)
Net sales		670,078	1,859,617	1,510,418	(487,684)	3,552,429
Cost of product sold		(553,391)	(1,291,532)	(1,212,105)	480,387	(2,576,641)
Gross profit		116,687	568,085	298,313	(7,297)	975,788
Selling, general and administrative expenses		(115,163)	(171,036)	(171,078)	(7,237)	(457,277)
Acquisition-related integration costs		(110,100)	(171,000)	(171,070)	_	-
Restructuring charges		_	(40,567)	9,413	_	(31,154)
Operating income		1,524	356,482	136,648	(7,297)	487,357
Gain on change in fair value of derivative instruments		1,181	_	_	_	1,181
Equity in earnings of equity method investees		215,775	90,157	2	(305,392)	542
Interest income (expense), net		15,945	(154,914)	(5,714)	_	(144,683)
Income before income taxes		234,425	291,725	130,936	(312,689)	344,397
Provision for income taxes		(6,714)	(75,950)	(41,319)	_	(123,983)
Net income		227,711	215,775	89,617	(312,689)	220,414
Dividends on preferred stock		(5,746)	_	_	_	(5,746)
Income available to common stockholders	\$	221,965	\$ 215,775	\$ 89,617	\$ (312,689) \$	

(in thousands)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Statement of Cash Flows	Company	Guarantors	INOTIGUATATILOTS	EIIIIIIIIIIIII	Consolidated
for the Year Ended February 28, 2006					
Net cash (used in) provided by operating activities	\$ (23,579)	\$ 272,120	\$ 187,430	\$ -	\$ 435,971
Cash flows from investing activities:	,	,	,		. ,
Purchases of property, plant and equipment	(5,200)	(52,329)	(74,969)	_	(132,498)
Purchases of businesses, net of cash acquired	_	(45,893)	_	_	(45,893)
Payment of accrued earn-out amount	_	(3,088)	_	_	(3,088)
Investment in equity method investee	_	(2,723)	_	_	(2,723)
Proceeds from sales of assets	4	118,294	1,381	_	119,679
Proceeds from sales of equity method investments	_	35,953	_	_	35,953
Proceeds from sales of businesses	_	17,861	_	_	17,861
Proceeds from sales of marketable equity securities	_	_	_	_	_
Other investing activities	_	(5,000)	151	_	(4,849)
Net cash (used in) provided by investing activities	(5,196)	63,075	(73,437)	_	(15,558)
Cash flows from financing activities:					
Principal payments of long-term debt	(516,567)	(7,311)	(3,715)	_	(527,593)
Payment of preferred stock dividends	(9,804)	_	_	_	(9,804)
Net proceeds from notes payable	40,500	_	23,302	_	63,802
Exercise of employee stock options	31,504	_	_	_	31,504
Proceeds from issuance of long-term debt	83	8,842	700	_	9,625
Proceeds from employee stock purchases	6,229	_	_	_	6,229
Payment of issuance costs of long-term debt	_	_	_	_	_
Proceeds from equity offerings, net of fees	_	_	_	_	_
Intercompany financings, net	477,738	(343,629)	(134, 109)	_	_
Net cash provided by (used in) financing activities	29,683	(342,098)	(113,822)	-	(426,237)
Effect of exchange rate changes on cash and cash investments	_	(244)	(689)	_	(933)
Net increase (decrease) in cash and cash investments	908	(7,147)	(518)	_	(6,757)
Cash and cash investments, beginning of year	_	10,095	7,540		17,635
Cash and cash investments, end of year	\$ 908	\$ 2,948	\$ 7,022	\$ -	\$ 10,878
Condensed Consolidating Statement of Cash Flows	\$ 908	\$ 2,948	\$ 7,022	\$ -	\$ 10,878
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities		\$ <b>2,948</b> \$ 213,887	<b>\$ 7,022</b> \$ 111,921	<b>\$</b> -	<b>\$ 10,878</b> \$ 320,700
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:	\$ (5,108)	\$ 213,887	\$ 111,921		\$ 320,700
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment	\$ (5,108) (7,301)	\$ 213,887 (45,839)	\$ 111,921 (66,524)		\$ 320,700
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired	\$ (5,108)	\$ 213,887 (45,839) (8,485)	\$ 111,921		\$ 320,700 (119,664) (1,052,471)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618)	\$ 111,921 (66,524) (8,900)		\$ 320,700 (119,664) (1,052,471) (2,618)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618)	\$ 111,921 (66,524) (8,900) - (86,121)		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618) - 181	\$ 111,921 (66,524) (8,900)		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618)	\$ 111,921 (66,524) (8,900) - (86,121)		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618) - 181	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - -		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - -	\$ 111,921 (66,524) (8,900) - (86,121)		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities	\$ (5,108) (7,301) (1,035,086) - - - - -	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - -	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - - 14,359	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities	\$ (5,108) (7,301)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - -	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - -		\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities  Cash flows from financing activities:	\$ (5,108) (7,301) (1,035,086) - - - - - - (1,042,387)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - - (46,877)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities  Cash flows from financing activities:  Principal payments of long-term debt	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - -	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - - 14,359	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - - (46,877)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of equity method investments  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from issuance of long-term debt	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from employee stock purchases	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from issuance of long-term debt  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - -	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - -	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from issuance of long-term debt  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees  Intercompany financing activities, net	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403) - (206,756)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - 200,891	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - - - - - 5,865	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690 (24,403) -
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from issuance of long-term debt  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees  Intercompany financing activities, net  Net cash provided by (used in) financing activities	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403) - (206,756) 1,046,406	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - 200,891 (161,298)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - - - - - 5,865 (928)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690 (24,403) - 884,180
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees  Intercompany financing activities, net  Net cash provided by (used in) financing activities  Effect of exchange rate changes on cash and cash investments	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403) - (206,756) 1,046,406 41	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - 200,891 (161,298) (281)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - - - - 5,865 (928) (1,281)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690 (24,403) - 884,180 (1,521)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Cash flows from financing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from issuance of long-term debt  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees  Intercompany financing activities, net  Net cash provided by (used in) financing activities  Effect of exchange rate changes on cash and cash investments  Net (decrease) increase in cash and cash investments	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403) - (206,756) 1,046,406 41 (1,048)	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - 200,891 (161,298) (281) 5,431	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - - - - 5,865 (928) (1,281) (23,884)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690 (24,403) - 884,180 (1,521) (19,501)
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005  Net cash (used in) provided by operating activities  Cash flows from investing activities:  Purchases of property, plant and equipment  Purchases of businesses, net of cash acquired  Payment of accrued earn-out amount  Investment in equity method investee  Proceeds from sales of assets  Proceeds from sales of businesses  Proceeds from sale of marketable equity securities  Other investing activities  Net cash used in investing activities:  Principal payments of long-term debt  Payment of preferred stock dividends  Net repayment of notes payable  Exercise of employee stock options  Proceeds from employee stock purchases  Payment of issuance costs of long-term debt  Proceeds from equity offerings, net of fees  Intercompany financing activities, net  Net cash provided by (used in) financing activities  Effect of exchange rate changes on cash and cash investments	\$ (5,108) (7,301) (1,035,086) - - - - (1,042,387) (1,179,562) (9,804) 14,000 48,241 2,400,000 4,690 (24,403) - (206,756) 1,046,406 41	\$ 213,887 (45,839) (8,485) (2,618) - 181 9,884 - - (46,877) (302,189) - (60,000) - - - 200,891 (161,298) (281)	\$ 111,921 (66,524) (8,900) - (86,121) 13,590 - 14,359 - (133,596) (6,935) - 142 - - - - - 5,865 (928) (1,281)	\$ - - - - - - - -	\$ 320,700 (119,664) (1,052,471) (2,618) (86,121) 13,771 9,884 - 14,359 - (1,222,860) (1,488,686) (9,804) (45,858) 48,241 2,400,000 4,690 (24,403) - 884,180 (1,521)

(in thousands)	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Condensed Consolidating Statement of Cash Flows					
for the Year Ended February 29, 2004					
Net cash provided by (used in) operating activities	\$ 397,785	\$ 115,791	\$(173,269)	\$ -	\$ 340,307
Cash flows from investing activities:					
Purchases of property, plant and equipment	(25,063)	(19,982)	(60,049)	_	(105,094)
Purchases of businesses, net of cash acquired	_	(1,069,470)	_	_	(1,069,470)
Payment of accrued earn-out amount	_	(2,035)	_	_	(2,035)
Investment in equity method investee	_	_	_	_	_
Proceeds from sales of assets	_	11,396	2,053	_	13,449
Proceeds from sales of equity method investments	_	_	-	_	_
Proceeds from sales of businesses	_	_	3,814	_	3,814
Proceeds from sale of marketable equity securities	_	_	849	_	849
Other investing activities	_	_	_	_	_
Net cash used in investing activities	(25,063)	(1,080,091)	(53,333)	_	(1,158,487)
Cash flows from financing activities:					
Principal payments of long-term debt	(885,359)	(23,394)	(373,521)	_	(1,282,274)
Payment of preferred stock dividends	(3,295)	_	_	_	(3,295)
Net (repayment of) proceeds from notes payable	(2,000)	(1,400)	2,287	_	(1,113)
Exercise of employee stock options	36,017	_	_	_	36,017
Proceeds from issuance of long-term debt	1,600,000	_	_	_	1,600,000
Proceeds from employee stock purchases	3,481	_	_	_	3,481
Payment of issuance costs of long-term debt	(33,748)	_	_	_	(33,748)
Proceeds from equity offerings, net of fees	426,086	_	_	_	426,086
Intercompany financing activities, net	(1,474,100)	776,442	697,658	_	_
Net cash (used in) provided by financing activities	(332,918)	751,648	326,424	_	745,154
Effect of exchange rate changes on cash and cash investments	(40,182)	216,068	(79,534)	_	96,352
Net (decrease) increase in cash and cash investments	(378)	3,416	20,288	-	23,326
Cash and cash investments, beginning of year	1,426	1,248	11,136	_	13,810
Cash and cash investments, end of year	\$ 1,048	\$ 4,664	\$ 31,424	\$ -	\$ 37,136

# **22.** BUSINESS SEGMENT INFORMATION:

The Company reports its operating results in three segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations, global information technology and global strategic sourcing. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments.

The business segments reflect how the Company's operations are being managed, how operating performance within the Company is being evaluated by senior management and the structure of its internal financial reporting. In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and

unusual items that affect comparability from its definition of operating income for segment purposes.

For the year ended February 28, 2006, acquisitionrelated integration costs, restructuring and related charges and unusual costs consist of restructuring and related charges associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan of \$29.3 million; the flow through of adverse grape cost (as described below) and acquisitionrelated integration costs associated primarily with the Robert Mondavi acquisition of \$23.0 million and \$16.8 million, respectively; accelerated depreciation costs in connection with the Fiscal 2006 Plan of \$13.4 million; the flow through of inventory step-up of \$7.9 million associated primarily with the Robert Mondavi acquisition; the write-off of due diligence costs associated with the Company's evaluation of a potential offer for Allied Domecq of \$3.4 million; and other costs associated with the Fiscal 2006 Plan of \$0.1 million. Adverse grape cost represents the amount of historical inventory cost on Robert Mondavi's balance sheet that exceeds the Company's estimated ongoing grape cost and is primarily due to the purchase of grapes by Robert Mondavi prior to the acquisition date at above-market prices as required under the terms of their existing grape purchase contracts. For the year ended February 28, 2005, acquisition-related integration costs, restructuring and related charges and unusual costs consist of financing costs associated with the redemption of the Company's Senior

Subordinated Notes (as defined in Note 9) and the repayment of the Company's prior senior credit facility of \$31.7 million; the flow through of adverse grape cost and acquisition-related integration costs associated with the Robert Mondavi acquisition of \$9.8 million and \$9.4 million, respectively; restructuring and related charges of \$7.6 million; and the flow through of inventory step-up associated with the Hardy Acquisition and the Robert Mondavi acquisition of \$6.4 million; partially offset by a net gain on the sale of non-strategic assets and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of \$6.1 million. For the year ended February 29, 2004, acquisition-related integration costs, restructuring and related charges and unusual costs consist of the flow through of inventory step-up and financing costs associated with the Hardy Acquisition of \$22.5 million and \$11.6 million, respectively; and restructuring and related charges of \$47.9 million, including a write-down of commodity concentrate inventory of \$16.8 million, partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of \$10.4 million.

The Company evaluates performance based on operating income of the respective business units. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 and include the recently adopted accounting pronouncements described in Note 2. Transactions between segments consist mainly of sales of products and are accounted for at cost plus an applicable margin.

Segment information is as follows:

	For the Years Ended					
	February 28,		February 29,			
(in thousands)	2006	2005	2004			
Constellation Wines:						
Net sales:						
Branded wine	\$2,263,369	\$1,830,808	\$1,549,750			
Wholesale and other	972,051	1,020,600	846,306			
Net sales	\$3,235,420	\$2,851,408	\$2,396,056			
Segment operating						
income	\$ 530,388	\$ 406,562	\$ 348,132			
Equity in earnings						
of equity method						
investees	\$ 825	\$ 1,753	\$ 542			
Long-lived assets	\$1,322,136	\$1,498,124	\$1,004,906			
Investment in equity						
method investees	\$ 146,639	\$ 259,181	\$ 8,412			
Total assets	\$6,510,280	\$6,941,068	\$4,789,199			
Capital expenditures	\$ 118,615	\$ 109,240	\$ 94,147			
Depreciation and						
amortization	\$ 110,486	\$ 83,744	\$ 73,046			

	For the Years Ended					
	I	February 28, <b>2006</b>	F	ebruary 28, 2005	F	ebruary 29, 2004
Constellation						
Beers and Spirits:						
Net sales:				000017	_	000 007
Imported beers	\$1	,043,483	\$	922,947	\$	862,637
Spirits	A 1	324,545	ф 1	313,283	ф 1	284,551
Net sales	\$1	,368,028	\$1	,236,230	\$1	,147,188
Segment operating	ф	202 572	Ф	276 100	Ф	252 522
income	\$ \$	292,572 90,527	\$ \$	276,109 83,548	\$ \$	252,533 80,388
Long-lived assets Total assets	\$		\$	790,457		718,380
	\$	833,627 11,536	\$	6,524	\$ \$	7,497
Capital expenditures Depreciation and	Ф	11,556	Φ	6,324	Φ	7,497
amortization	\$	9,760	\$	10,590	\$	9,491
Corporate Operations	Ψ	3,700	Ψ	10,550	Ψ	5,451
and Other:						
Net sales	\$	_	\$	_	\$	_
Segment operating loss	\$	(63,001)	\$	(55,980)	\$	(41,717)
Long-lived assets	\$	12,635	\$	14,695	\$	12,068
Total assets	\$	56,647	\$	72,647	\$	51,094
Capital expenditures	\$	2,347	\$	3,900	\$	3,450
Depreciation and		,		,		,
amortization	\$	7,852	\$	9,321	\$	19,417
Acquisition-Related Integration Costs, Restructuring and Related Charges and Net Unusual Costs:						
Net sales	\$	_	\$	_	\$	9,185
Operating loss	\$	(93,844)	\$	(58,795)	\$	(71,591)
Consolidated:	Ψ	(30,011)	Ψ	(00,7 50)	Ψ	(71,001)
Net sales	\$4	,603,448	\$4	,087,638	\$3	3,552,429
Operating income	\$	666,115	\$	567,896	\$	487,357
Equity in earnings	т.	,	т	,	т	,
of equity						
method investees	\$	825	\$	1,753	\$	542
Long-lived assets	\$1	,425,298	\$1	,596,367	\$1	,097,362
Investment in equity						
method investees	\$	146,639	\$	259,181	\$	8,412
Total assets		,400,554		7,804,172		5,558,673
Capital expenditures	\$	132,498	\$	119,664	\$	105,094
Depreciation and amortization	\$	128,098	\$	103,655	\$	101,954

The Company's areas of operations are principally in the United States. Operations outside the United States are primarily in the United Kingdom and Australia and are included within the Constellation Wines segment. Revenues are attributed to countries based on the location of the selling company.

# Geographic data is as follows:

	For the Years Ended					
	February 28, 2006	February 28, 2005	February 29, 2004			
Net Sales						
United States	\$2,823,345	\$2,334,854	\$2,132,357			
Non-U.S.	1,780,103	1,752,784	1,420,072			
Total	\$4,603,448	\$4,087,638	\$3,552,429			
Significant non-U.S.						
revenue sources						
include:						
United Kingdom	\$1,357,887	\$1,374,775	\$1,128,022			
Australia/						
New Zealand	319,283	314,704	238,229			
Other	102,933	63,305	53,821			
Total	\$1,780,103	\$1,752,784	\$1,420,072			

		February 28, <b>2006</b>	F	ebruary 28, 2005
Long-lived assets				
United States	\$	765,200	\$	922,161
Non-U.S.		660,098		674,206
Total	\$1	1,425,298	\$1	,596,367
Significant non-U.S.				
long-lived assets include:				
Australia/New Zealand	\$	431,627	\$	437,157
United Kingdom		160,733		175,638
Other		67,738		61,411
Total	\$	660,098	\$	674,206

# 23. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43 ("ARB No. 43"), "Restatement and Revision of Accounting Research Bulletins," Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. As required, the Company adopted SFAS No. 151 on March 1, 2006. The adoption of SFAS No. 151 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment." SFAS No. 123(R) replaces Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. In addition, SFAS No. 123(R) establishes fair value

as the measurement objective in accounting for sharebased payment arrangements and requires all entities to apply a grant date fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) also amends Statement of Financial Accounting Standards No. 95 ("SFAS No. 95"), "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) applies to all awards granted, modified, repurchased, or cancelled after the required effective date (see below). In March 2005, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), "Share-Based Payment," to express the views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements for public companies. The Company adopted SFAS No. 123(R) as of March 1, 2006, using the modified prospective application. This application requires compensation cost to be recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered based on the grant date fair value of those awards as calculated under SFAS No. 123 for either recognition or pro forma disclosures. As of March 1, 2006, the unrecognized compensation expense associated with the remaining portion of the unvested outstanding awards is not material. In addition, the Company estimates stockbased compensation expense for options to be granted for the year ended February 28, 2007, to approximate \$8.5 million, excluding any options granted or which may be granted in connection with the pending acquisition of Vincor (see Note 24).

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS No. 154"), "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the periodspecific effects or the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change of estimate effected by a change in accounting principle. SFAS No. 154 also carries forward without change the guidance in APB Opinion No. 20 with respect to accounting for changes in accounting estimates, changes in the reporting unit and correction of an error in previously issued financial statements. As required, the Company adopted SFAS No. 154 on March 1, 2006. The adoption of SFAS No. 154 did not have a material impact on the Company's consolidated financial statements.

#### 24. SUBSEQUENT EVENT:

On April 2, 2006, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Vincor International Inc. ("Vincor") pursuant to which, subject to satisfaction of certain conditions, the Company will acquire all of the issued and outstanding common shares of Vincor. Vincor is the world's eighth largest producer and distributor of wine and related products by revenue based in Mississauga, Ontario, Canada, and is Canada's largest producer and marketer of wine. Vincor is also one of the largest wine importers, marketers and distributors in the U.K. The pending acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic markets to capitalize on the overall growth in the wine industry.

The Arrangement Agreement provides for Vincor shareholders to receive in cash Cdn\$36.50 per common share. Total consideration to be paid in cash to the Vincor shareholders is expected to be approximately Cdn\$1.2

billion. In addition, the Company expects to pay certain obligations of Vincor, including indebtedness outstanding under its bank facility and secured notes. In April 2006, the Company entered into a foreign currency forward contract in connection with the pending acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. The foreign currency forward contract is for the purchase of Cdn\$1.4 billion at a rate of Cdn\$1.149 to U.S.\$1.00. The consideration to be paid to the shareholders and the amount needed to repay outstanding indebtedness of Vincor is expected to be financed with borrowings under an amended and restated senior credit facility. The Company currently expects to complete the acquisition of Vincor in early June 2006.

In accordance with the purchase method of accounting, the acquired net assets will be recorded at fair value as of the date of the acquisition. The results of operations of Vincor will be reported in the Constellation Wines segment and will be included in the Consolidated Statements of Income beginning on the date of acquisition.

# 25. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

A summary of selected quarterly financial information is as follows:

				Quarter Ende	ed Fi	scal 2006			_	
(in thousands, except per share data)		May 31, 2005		August 31, 2005	٨	lovember 30, 2005		February 28, 2006		Full Year
Net sales	\$1	,096,535	\$1	,191,959	\$1	,267,087	\$1	1,047,867	\$4	1,603,448
Gross profit	\$	306,006	\$	348,000	\$	384,221	\$	286,362	\$1	1,324,589
Net income (1)	\$	75,699	\$	82,420	\$	108,961	\$	58,182	\$	325,262
Earnings per common share (2):										
Basic - Class A Common Stock	\$	0.34	\$	0.37	\$	0.49	\$	0.25	\$	1.44
Basic – Class B Common Stock	\$	0.31	\$	0.33	\$	0.44	\$	0.23	\$	1.31
Diluted	\$	0.32	\$	0.34	\$	0.46	\$	0.24	\$	1.36

	Quarter Ended Fiscal 2005									
(in thousands, except per share data)		May 31, 2004		August 31, 2004	No	vember 30, 2004	F	ebruary 28, 2005		Full Year
Net sales	\$	927,305	\$1	,036,941	\$1	,085,711	\$1	,037,681	\$4	,087,638
Gross profit	\$	250,462	\$	289,683	\$	313,664	\$	286,780	\$1	,140,589
Net income (3)	\$	51,329	\$	80,614	\$	96,893	\$	47,628	\$	276,464
Earnings per common share (2):										
Basic – Class A Common Stock	\$	0.23	\$	0.37	\$	0.44	\$	0.21	\$	1.25
Basic – Class B Common Stock	\$	0.21	\$	0.33	\$	0.40	\$	0.19	\$	1.14
Diluted	\$	0.22	\$	0.35	\$	0.42	\$	0.20	\$	1.19

<sup>(1)</sup> In Fiscal 2006, the Company recorded acquisition-related integration costs, restructuring and related charges and unusual costs consisting of restructuring and related charges associated primarily with the Fiscal 2006 Plan and the Robert Mondavi Plan; the flow through of adverse grape cost and acquisition-related integration costs associated primarily with the Robert Mondavi acquisition; the flow through of inventory step-up associated with the Robert Mondavi acquisition and certain equity method investments; accelerated depreciation costs in connection with the Fiscal 2006 Plan; the write-off of due diligence costs associated with the Company's evaluation of a potential offer for Allied Domecq; other worldwide wines reorganization costs in connection with the Fiscal 2006 Plan; and an income tax adjustment in connection with the reversal of an income tax accrual related to the completion of various income tax examinations. The following table identifies these items, net of income taxes, by quarter and in the aggregate for Fiscal 2006:

(in thousands, net of tax)	May 31, 2005	August 31, 2005	November 30, 2005	February 28, 2006	Full Year
Restructuring and related charges	\$ 1,149	\$ 1,468	\$ 2,585	\$15,485	\$ 20,687
Flow through of adverse grape cost	4,595	4,165	3,771	2,102	14,633
Acquisition-related integration costs	3,934	5,075	985	668	10,662
Flow through of inventory step-up	2,071	2,463	3,135	5,845	13,514
Accelerated depreciation	-	_	4,397	4,566	8,963
Allied Domecq due diligence costs	-	2,460	(233)	_	2,227
Other worldwide wines reorganization costs	-	_	_	54	54
Income tax adjustment	(16,208)	_	_	_	(16,208)
Total acquisition-related integration					
costs, restructuring and related					
charges and unusual costs	\$ (4,459)	\$15,631	\$14,640	\$28,720	\$ 54,532

(2) The sum of the quarterly earnings per common share in Fiscal 2006 and Fiscal 2005 may not equal the total computed for the respective years as the earnings per common share are computed independently for each of the quarters presented and for the full year.

(3) In Fiscal 2005, the Company recorded acquisition-related integration costs, restructuring and related charges and unusual costs consisting of financing costs associated with the redemption of senior subordinated notes and the repayment of the Company's prior senior credit facility; the flow through of adverse grape cost and acquisition-related integration costs associated with the Robert Mondavi acquisition; restructuring and related charges resulting primarily from (i) the realignment of business operations in the Constellation Wines segment and (ii) the Robert Mondavi acquisition; the flow through of inventory step-up associated with the Hardy Acquisition and the Robert Mondavi acquisition; and other, which include net gains from the sale of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. The following table identifies these items, net of income taxes, by quarter and in the aggregate for Fiscal 2005:

		Quarter Ended Fiscal 2005					
(in thousands, net of tax)	May 31, 2004	August 31, 2004	November 30, 2004	February 28, 2005	Full Year		
	<b>A.C.</b> CO.1	Φ.	Φ.	<b>4.10.004</b>	<b>\$00.00</b> 5		
Financing costs	\$ 6,601	\$ -	\$ -	\$ 13,684	\$20,285		
Flow through of adverse grape cost	_	_	_	6,240	6,240		
Acquisition-related integration costs	_	_	_	6,029	6,029		
Restructuring and related charges	1,032	748	1,052	2,018	4,850		
Flow through of inventory step-up	829	622	1,210	1,479	4,140		
Other	_	_	_	(3,916)	(3,916)		
Total acquisition-related integration costs, restructuring and related							
charges and unusual costs	\$ 8,462	\$1,370	\$ 2,262	\$ 25,534	\$37,628		

Methods of Distribution In North America, the Company's products are primarily distributed by approximately 700 wholesale distributors as well as state and provincial alcoholic beverage control agencies. As is the case with all other beverage alcohol companies, products sold through state or provincial alcoholic beverage control agencies are subject to obtaining and maintaining listings to sell the Company's products in that agency's state or province. State and provincial governments can affect prices paid by consumers of the Company's products. This is possible either through the imposition of taxes or, in states and provinces in which the government acts as the distributor of the Company's products through an alcoholic beverage control agency, by directly setting retail prices for the Company's products.

In the United Kingdom the Company's products are distributed either directly to retailers or through wholesalers and importers. The Company's U.K. wholesaling business sells and distributes the Company's branded products and

those of other major drinks companies to on-premise locations through a network of depots located throughout the United Kingdom. In Australasia and other markets, the Company's products are primarily distributed either directly to retailers or through wholesalers and importers. In the United Kingdom and Australasia, the distribution channels are dominated by a small number of industry leaders.

**Common Stock Prices and Dividends** The following tables set forth for the periods indicated the high and low sales prices of the Class A Stock and the Class B Stock as reported on the NYSE.

During April 2005, the Company's Board of Directors approved two-for-one splits of the Company's Class A Stock and Class B Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Prices in the following tables have been adjusted to give effect to these common stock splits.

		Class A Stock					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
Fiscal 2005							
High	\$ 18.13	\$ 19.97	\$ 22.59	\$ 28.68			
Low	\$ 15.45	\$ 17.70	\$ 18.01	\$ 22.33			
Fiscal 2006							
High	\$30.08	\$31.60	\$29.01	\$27.39			
Low	\$24.50	\$26.26	\$21.15	\$23.16			
		Class B	Stock				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
Fiscal 2005							
High	\$ 18.03	\$ 19.82	\$ 22.68	\$ 28.64			
Low	\$ 15.37	\$ 18.08	\$ 18.15	\$ 22.70			
Fiscal 2006							
High	\$29.88	\$31.24	\$28.90	\$27.35			

The Company has not paid any cash dividends on its common stock since its initial public offering in 1973. In addition, under the terms of the Company's senior credit facility, the Company is currently constrained from paying cash dividends on its common stock. Also, the indentures for the Company's outstanding senior notes and senior subordinated notes may restrict the payment of cash dividends on its common stock under certain circumstances. Any indentures for debt securities issued in the future and

Low

any credit agreements entered into in the future may also restrict or prohibit the payment of cash dividends on common stock. During April 2005, the Company's Board of Directors approved two-for-one stock splits of the Company's Class A Stock and Class B Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to these common stock splits.

\$26.75

\$21.50

\$23.32

\$25.99

# MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Constellation Brands, Inc. (together with its subsidiaries, the "Company") is responsible for establishing and maintaining an adequate system of internal control over financial reporting. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as of February 28, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders Constellation Brands, Inc.:

We have audited the accompanying consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Constellation Brands, Inc. and subsidiaries as of February 28, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended February 28, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Constellation Brands, Inc.'s internal control over financial reporting as of February 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 1, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Rochester, New York May 1, 2006

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders Constellation Brands, Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Constellation Brands, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of

financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Constellation Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2006, and our report dated May 1, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Rochester, New York May 1, 2006

# DIRECTORS AND EXECUTIVE OFFICERS

#### **DIRECTORS**

#### RICHARD SANDS

Chairman of the Board and Chief Executive Officer, Constellation Brands, Inc.

#### ROBERT SANDS

President and Chief Operating Officer, Constellation Brands, Inc.

## BARRY A. FROMBERG(1)

Retired from Dean Foods Company

# JEANANNE K. HAUSWALD (1,2,3)

Managing Partner, Solo Management Group, LLC; Retired from The Seagram Company Ltd.

# JAMES A. LOCKE III<sup>(3)</sup>

Partner of the law firm of Nixon Peabody LLP

THOMAS C. MCDERMOTT<sup>(1,2,3)</sup> Chairman of GPM Associates, LLP

## PAUL L. SMITH (1,2,3)

Retired from Eastman Kodak Company

- (1) Member of Audit Committee
- (2) Member of Human Resources Committee
- (3) Member of Corporate Governance Committee

#### **EXECUTIVE OFFICERS**

#### RICHARD SANDS

Chairman of the Board and Chief Executive Officer, Constellation Brands, Inc.

#### ROBERT SANDS

President and Chief Operating Officer, Constellation Brands, Inc.

# F. PAUL HETTERICH

Executive Vice President, Business Development and Corporate Strategy, Constellation Brands, Inc.

# THOMAS J. MULLIN

Executive Vice President and General Counsel, Constellation Brands, Inc.

#### THOMAS S. SUMMER

Executive Vice President and Chief Financial Officer, Constellation Brands, Inc.

#### W. KEITH WILSON

Executive Vice President and Chief Human Resources Officer, Constellation Brands, Inc.

# ALEXANDER L. BERK\*

Chief Executive Officer, Constellation Beers and Spirits

<sup>\*</sup> Mr. Berk is employed by Barton Incorporated

# CONSTELLATION BRANDS PRODUCTION FACILITIES

As of May 31, 2006

#### **SPIRITS**

Barton Brands of California, Inc. (Carson, California) Barton Brands of Georgia, Inc. (Atlanta, Georgia) Barton Brands, Ltd. (Bardstown, Kentucky) Barton Brands, Ltd. (Owensboro, Kentucky) Schenley Distilleries Inc. (Valleyfield, Quebec, Canada) The Black Velvet Distilling Co. (Lethbridge, Alberta, Canada) Viking Distillery, Barton Brands of Georgia, Inc. (Albany, Georgia)

#### **CIDER**

Shepton Mallet (Somerset, England)

#### WINE

#### California:

Blackstone Winery (Gonzales, Calif. – Monterey County)
Blackstone Winery (Kenwood, Calif. – Sonoma County)
Dunnewood Vineyards (Ukiah, Calif.)
Estancia Winery (Soledad, Calif. – Monterey County)
Franciscan Vineyards (Rutherford, Calif.)
Mission Bell Winery (Madera, Calif.)
Paul Masson Cellars & Vintners (Madera, Calif.)
Ravenswood Wineries (Sonoma, Calif.)
Robert Mondavi Winery (Oakville, Calif.)
Simi Winery (Healdsburg, Calif.)
Turner Road Vintners Wineries (Lodi/Woodbridge, Calif.)
Woodbridge Winery (Acampo, Calif.)

#### Idaho:

Ste. Chapelle Winery (Caldwell, Idaho)

#### New York:

Canandaigua Winery (Canandaigua, N.Y.) Widmer's Wine Cellars (Naples, N.Y.)

# Washington:

Columbia Winery (Woodinville, Wash.) Sunnyside Operations (Sunnyside, Wash.)

#### Australia:

#### South Australia

Berri Estates Winery, Glossop Leasingham Winery, Clare Valley Reynella Winery, Reynella Stonehaven Winery, Padthaway Tintara Winery, McLaren Vale

#### Western Australia

Houghton Winery, Upper Swan Nannup Winery, Nannup

#### New South Wales

Stanley Winery, Buronga

#### Australian Capital Territory

Kamberra Winery, Canberra

# Tasmania

Bay of Fires Winery, Pipers River

#### Chile:

Veramonte Winery (Casablanca, Chile)

# **England:**

Bristol Winery (Bristol, England)

#### New Zealand:

Drylands Winery (Marlborough, South Island) Corner 50 Winery (Hawkes Bay, North Island) Huapai Winery (West Auckland, North Island)

For a summary of Vincor International regions where production takes place, please see page 5 of this annual report.

#### INVESTOR INFORMATION

As of May 31, 2006

## CORPORATE HEADQUARTERS

Constellation Brands, Inc. 370 Woodcliff Drive, Suite 300 Fairport, New York 14450 585.218.3600 888.724.2169 www.cbrands.com

Investor Center: 888.922.2150

# STOCK AND DEPOSITARY SHARE TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC 480 Washington Boulevard Jersey City, New Jersey 07310 800.288.9541 (toll free, within the U.S.) 201.680.6578 (outside the U.S.) www.melloninvestor.com

## COMMON STOCK TRADING

The Company's Class A and Class B Common Stock trade on the New York Stock Exchange (NYSE) under the ticker symbols STZ and STZ.B, respectively. As of April 28, 2006, there were 1,030 and 219 holders of record of Class A and Class B Common Stock, respectively.

# DEPOSITARY SHARE TRADING

1800.030.606 (within Australia)

61.3.9415.4000 (outside Australia)

Depositary Shares each representing 1/40 of a share of the Company's 5.75% Series A Mandatory Convertible Preferred Stock trade on the NYSE under the ticker symbol STZPrA.

## CDI TRANSFER AGENT AND REGISTRAR

ComputerShare Investor Services Pty Limited Level 5 115 Grenfell Street Adelaide South Australia 5000 OR GPO Box 1903 Adelaide South Australia 5001

#### CDI TRADING

CHESS Depositary Interests trade on the Australian Stock Exchange (ASX) under the ticker symbol CBR. As of April 28, 2006, there were 828 holders of record.

## ANNUAL CERTIFICATION

The Company has filed with the Securities and Exchange Commission, as exhibits to its Annual Report on Form 10-K for the fiscal year ended February 28, 2006, the Certifications of the Company's Chief Executive Officer and its Chief Financial Officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. In addition, in 2005 the Company submitted to the New York Stock Exchange the required annual certification of the Company's Chief Executive Officer that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

#### DIVIDEND POLICY

With respect to its common stock, the Company's policy is to retain all of its earnings to finance the development and expansion of its business, and the Company has not paid any cash dividend on its common stock since its initial public offering in 1973. The Company pays quarterly dividends on its preferred stock in accordance with its terms.

# INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The statements set forth in this report, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in, or implied by, the forward-looking statements. For risk factors associated with the Company and its business, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2006.

# ADDITIONAL COPIES OF FORM 10-K

The Annual Report on Form 10-K may be obtained by contacting Constellation Brands, Inc.'s Investor Relations department at our corporate headquarters address provided on this page. Alternatively, a copy is available on our Constellation Brands' Web site at cbrands.com, or by request from the Securities and Exchange Commission.

# ANNUAL STOCKHOLDERS' MEETING

The annual meeting is scheduled to be held at 11:00 a.m. on Thursday, July 27, 2006, Eastern time, at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York.

Photography: © Paul Horton www.paulhortonphoto.com

# CORPORATE SOCIAL RESPONSIBILITY AT CONSTELLATION



AT THE HEART OF HOW WE DO BUSINESS. At Constellation Brands, we believe the tremendous breadth of our portfolio, with more than 200 brands across categories, price segments and geographies, makes us unique among the world's leading beverage alcohol companies.

Constellation's philosophy of social responsibility flows from its values and culture. People matter; the environment matters, for the benefit of future generations; and the environment in which we all live and work today matters.

Being an agriculturally-based business, conserving the environment is a business necessity, as well as a human one. The company constantly studies ways to be more "earth-friendly" by reducing the impact of our business on the environment. For example, there is an established program to qualify our production facilities under various ISO standards, and we are studying ways of reducing air emissions and treating wastewater in various parts of the world. We also have a division which works to find new uses for the byproducts of winemaking, such as grape seeds and skins.

Constellation's commitment to the people in the communities where we conduct our business is manifested in the many "cause-related" marketing programs we develop, which encourage consumers to join us in supporting issues as diverse as breast cancer research, local zoos, African wildlife, preservation of American beaches and reforestation.

On a broader scale, we are working with others in Canada on a five-year program to return Atlantic salmon to Lake Ontario, and to preserve their habitat. We also have wetlands at some of our wineries in California and Australia, which are home to many species.

Both Constellation and its operating companies contribute, throughout the regions where we conduct business, to various charitable causes that support the arts, education, health and specific needs of various communities and programs to educate consumers on responsible beverage alcohol consumption.

Additionally, our wine, spirits and imported beer products allow us to provide millions of legal drinking age people with a broad range of choices. Whether relaxing at home or celebrating a special occasion with family and friends, we encourage people to enjoy our products responsibly. Producing and marketing popular, high-quality products is only part of our job. Equally important is Constellation's commitment to ensuring that our marketing and advertising reflect the industry's highest standards and best practices. Constellation promotes the responsible consumption of our products on our web sites, in advertising and promotions, and on packaging. A copy of Constellation's Global Code of Responsible Practices for Beverage Alcohol Advertising and Marketing can be found at www.cbrands.com.





370 Woodcliff Drive, Suite 300 Fairport, New York 14450 www.cbrands.com